28th Legislature(2013-2014)

Fiscal Action Summary

BILL: SB 138

BILL VERSION: HCS CSSB 138(FIN) AM H

CURRENT STATUS: CHAPTER 14 SLA 14

SHORT TITLE: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX

STATUS DATE: 05/08/14

SB 138

Fiscal Note	Preparer	Date	Ch	Published Fiscal Impact	Cmte Report	Approp Bill
#1	Commerce, Community & Economic Dev	01/24/2014	SENATE	Y	SRES	
#2	Commerce, Community & Economic Dev	01/24/2014	SENATE	Y	SRES	
#3	Natural Resources	01/24/2014	SENATE	Y	SRES	
#4	Revenue	01/24/2014	SENATE	Y	SRES,SFIN	
#5	Natural Resources	03/14/2014	SENATE	Y	SFIN	
#6	Commerce, Community & Economic Dev	03/14/2014	SENATE	Y	SFIN	
#7	Commerce, Community & Economic Dev	03/14/2014	SENATE	Y	SFIN	
#8	Commerce, Community & Economic Dev	03/14/2014	SENATE	Y	SFIN	
#9	Revenue	03/14/2014	SENATE	Y	SFIN	
#10	Commerce, Community & Economic Dev	03/17/2014	SENATE	Y	SRLS	
#11	Revenue	03/17/2014	SENATE	Y	SRLS,HRES	
#12	Natural Resources	03/17/2014	SENATE	Y	SRLS	
#13	Revenue	03/17/2014	SENATE	Y	SRLS	
#14	Commerce, Community & Economic Dev	03/17/2014	SENATE	Y	SRLS	
#15	Commerce, Community & Economic Dev	03/17/2014	SENATE	Y	SRLS	
#16	Commerce, Community & Economic Dev	04/11/2014	HOUSE	Y	HFIN,HRES	
#17	Commerce, Community & Economic Dev	04/11/2014	HOUSE	Y	HRES	
#18	Commerce, Community & Economic Dev	04/11/2014	HOUSE	Y	HRES	
#19	Natural Resources	04/11/2014	HOUSE	Y	HRES	
#20	Revenue	04/11/2014	HOUSE	Y	HRES	
#21	Finance	04/18/2014	HOUSE	Y	HFIN	HB 266
#22	Finance	04/18/2014	HOUSE	Y	HFIN	HB 266
#23	Finance	04/18/2014	HOUSE	Y	HFIN	
#24	Finance	04/18/2014	HOUSE	Y	HFIN	HB 266
#25	Revenue	04/18/2014	HOUSE	Y	HFIN	HB 266
#26	Finance	04/18/2014	HOUSE	Y	HFIN	HB 266

Alaska Court System	
Alaska Court System	
Trial Courts	
1004 Gen Fund	25,500
SB 138 GAS PIPELINE; AGDC; OIL & GAS PROD. TAX	
Department of Commerce, Community and Economic Development	
Alaska Gasline Development Corporation	
Alaska LNG Participation	
1235 AGDC-LNG	2,999,400
Department of Natural Resources	
Administration & Support Services	
North Slope Gas Commercialization	
1004 Gen Fund	8,986,700
Department of Revenue	
Taxation and Treasury	
Tax Division	
1004 Gen Fund	750,000
Administration and Support	
Natural Gas Commercialization	
1236 AK LNG I/A	2,500,000
Department of Transportation and Public Facilities	
Design, Engineering and Construction	
Statewide Design and Engineering Services	
1061 CIP Rcpts	-70,000
1236 AK LNG I/A	70,000
SB 169 IMMUNIZATION PROGRAM; VACCINE ASSESSMENTS	
Department of Health and Social Services	
Public Health	
Epidemiology	
1004 Gen Fund	-4,000,000
1238 VaccAssess	22,488,600

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HCS CSSB 138(FIN)
Fiscal Note Number: 21
(H) Publish Date: 4/18/14

Identifier: SB138-DCCED-AGDC-4-18-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: HFIN

Department: Department of Commerce, Community and Economic Development
Appropriation: Alaska Gasline Development Corporation
Allocation: Alaska LNG Participation
OMB Component Number:

Expenditures/Revenues
Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services	1,476.0		1,476.0	1,476.0	***	***	***
Travel	964.0		964.0	964.0			
Services	329.4		329.4	329.4			
Commodities							
Capital Outlay	230.0						
Grants & Benefits							
Miscellaneous							
Total Operating	**2,999.4**	**0.0**	**2,769.4**	**2,769.4**	***	***	***

Fund Source (Operating Only)

1235 AGDC-LNG	2,999.4		2,769.4	2,769.4			
Total	**2,999.4**	**0.0**	**2,769.4**	**2,769.4**	***	***	***

Positions

Full-time	6.0		6.0	6.0			
Part-time							
Temporary							

Change in Revenues							

Estimated SUPPLEMENTAL (FY2014) cost: 406.7 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS
Does the bill direct, or will the bill result in, regulation changes adopted by your agency? N
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:
This revised fiscal note replaces the temp code 1178 with the new Alaska Liquefied Natural Gas Project Fund code 1235.

Prepared By: Co-Chair Representative Austerman
House Finance Committee
Co-Chair Representative Stoltze
House Finance Committee
Phone: (907)465-6258
Date: 04/18/2014

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HCS CSSB 138(FIN)

Analysis

Activity Growth: This bill expands the purpose of the Alaska Gasline Development Corporation (AGDC) by authorizing it to participate in advancing an Alaska liquefied natural gas project (AKLNG) while continuing to advance the in-state natural gas pipeline project described in AS 31.25.005, commonly known as the Alaska Stand Alone Pipeline (ASAP). In its current form, the bill:

- Gives AGDC the primary responsibility for developing the AKLNG project on the state's behalf, to include developing infrastructure and services related to transportation, liquefaction, marine terminals, marketing and commercial support. Authorizes AGDC to acquire an ownership interest in the AKLNG project, including liquefaction facilities associated with that project.

- Directs AGDC to act in the State's best interest to deliver instate gas, and to provide both economic benefit and revenue to the State; and to assist DOR and DNR in maximizing the value of the State's royalty gas and gas delivered in lieu of taxes.

- Establishes a new Alaska Liquefied Natural Gas Project Fund to fund AGDC's participation in the AKLNG project and restricts the use of those funds to AKLNG related work. Similarly, funds appropriated to the existing In-State Natural Gas Pipeline Fund (1229) would be restricted to work associated with the ASAP project.

- Allows the AGDC Board to hire a separate Program Manager for the AKLNG Project and requires it to establish separations in operations, personnel and functions as may be necessary to firewall commercially sensitive and confidential information between the ASAP and AKLNG projects.

Allocation: A new allocation – *Alaska LNG Participation* – will be created to track AGDC expenditures related to advancing the AKLNG project.

AGDC Operating Expenses: AGDC will incur $8,944.9 in AKLNG related operating costs through FY17. AGDC intends to fund these activities as they occur, by drawing from the new Alaska Liquefied Natural Gas Project Fund. To maintain the momentum of current AKLNG negotiations, pre-FEED activities will begin immediately upon enactment of the legislation. AGDC is requesting $3,406.1 in operating funding this legislative session - the minimum amount necessary to fund FY14 ($406.7) & FY15 ($2,999.4) activities. AGDC's anticipated operating costs through FY15 are summarized by category below:

$ 1,722.0 - Personal Services *(FY14 $246.0 and FY15 $1,476.0)*: AGDC will need to build in-house capacity to manage the Corporation's participation in this large-scale, multi-year initiative. It is anticipated that AGDC will begin recruiting staff immediately upon enactment. It will be necessary to attract seasoned professionals capable of managing the negotiations, contacts and investments associated with this complex commercial partnership. To augment AGDC's existing management team a VP level position will be added to integrate internal operations and processes across both project initiatives. Specific to the AKLNG initiative, in addition to the Program Manager suggested by the legislation, the team would include a Contract Compliance Officer, Senior Accountant and two Administrative Assistants for a total of 6 new fulltime positions. The annualized salary and benefit costs for these positions are estimated at $1,476.0.

1 – AKLNG Program Manager, $492.0 annual burdened salary ($300.0 + benefits)
1 – VP, $410.0 annual burdened salary ($250.0 + benefits)
1 – Contract Compliance Officer, $196.8 annual burdened salary ($120.0 + benefits)
1 – Senior Accountant, $164.0 annual burdened salary ($100.0 + benefits)
2 – Administrative Assistant, each at $106.6 annual burdened salary ($65.0 + benefits)

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HCS CSSB 138(FIN)

Analysis Continued

$ 1,124.7 - Travel *(FY14 $160.7 and FY15 $964.0)*: Extensive travel will be incurred by corporate staff, the AKLNG Program Manager, as well as commercial, marketing, engineering and legal teams. In addition, this legislation increases the authority and responsibilities of the AGDC board which will result in more frequent meetings and additional costs associated with stipends, travel, perdiem and other board expenses.

$ 329.4 - Services *(FY15)*: Additional office space will be necessary to accommodate new employees and contractor work areas. Incremental annual lease costs of $329.4 are anticipated beginning in FY15.

$ 230.0 - Capital Outlay *(FY15)*: One-time costs associated with the acquisition of communications and IT equipment, and furnishings for expanded staff.

Capital and Investment Expenses: The State's capital and investment expenditures associated with AKLNG pre-FEED activities through FY17 are estimated at $185,332.9 and are detailed by category below. However, as noted previously, AGDC is requesting a capital funding of $63,858.4 this legislative session. The amount sufficient to fund the Corporation's FY14 ($10,858.3) and FY15 ($53,000.1) capital needs. These activities would begin immediately upon enactment of this legislation with funds being drawn before the end of FY14. AGDC will fund activities as they occur, by drawing from the new Alaska Liquefied Natural Gas Project Fund created by this legislation.

$ 6,008.4 - Project Related Contractual Services *(FY14 $858.3 and FY15 $5,150.1)*: It's anticipated that 50+ commercial agreements will need to be executed over the next 18-36 months. AGDC will necessarily have to contract for subject matter expertise and outside counsel to support the AKLNG team's efforts in deal origination, negotiation and analysis. Focus areas include contract negotiations, midstream and liquefaction facility engineering analysis, interface engineering, commercial analysis, gas marketing and investment financing. AGDC's total costs for outside contractors through FY17 are estimated at $15,108.5.

$ 57,850.0 - Equity Participation in LNG Facility *(FY14 $10,000.0 and FY15 $47,850.0)*: At 25% equity participation, AGDC's share of pre-FEED LNG Facility technical costs are estimated at $42.5 million. It's anticipated that an additional $2.0 million will be required to cover AGDC's share of non-technical project costs that will be allocated to each AKLNG partner. These estimates are based on the information available at this time, consequently a 30% contingency of $13.35 million has been added.

	Total	AGDC %	ADGC $
LNG Facility Cost	$ 170,000.0	25%	$ 42,500.0
LNG Non-Technical Share			$ 2,000.0
	Subtotal		$ 44,500.0
30% Contingency		30%	$ 13,350.0
	Total		$ 57,850.0

$ 42,250.0 - 40% Option on TC Mid-stream *(FY16)*: AGDC's cost to exercise the State's option to buy-out 40% of TransCanada's mid-stream interests is estimated at $26.5 million. If exercised, TransCanada will be entitled to be reimbursed for all of its non-technical costs previously attributed to that 40%. Those are estimated at $6.0 million. These estimates are based on the information available at this time, consequently a 30% contingency of $9.8 million has been added. This option is not likely to be exercised before FY16 and is therefore not included in this year's appropriation request.

	Total	AGDC %	ADGC $
40% of TC Midstream (*=10% Total Project Share*)	$ 265,000.0	10%	$ 26,500.0
TC's Cost Reimbursement			$ 6,000.0
	Subtotal		$ 32,500.0
30% Contingency		30%	$ 9,750.0
	Total		$ 42,250.0

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HCS CSSB 138(FIN)

Analysis Continued

$ 70,124.4 –Guarantee of TransCanada's Development Costs *(FY16)*: If TransCanada doesn't progress to the FEED stage of the project for any reason other than their own voluntary withdrawal, the MOU between the State and TC requires the State to reimburse TC for the AKLNG project costs incurred since 1/01/2014, to include the pre-FEED costs on their portion of the mid-stream, any non-technical cost allocations they've paid, plus a 7.1% return on that investment (AFUDC - *Allowance For Funds Used During Construction*). These costs are estimated below based on the best information available at this time, consequently a 30% contingency has been added. If required, these reimbursements and return guarantees are not anticipated to occur before FY16 and are therefore not included in this year's appropriation request.

	Total	TC%	AGDC $
TC Midstream Share	$ 265,000.0	15.0%	$ 39,750.0
TC Non-Tech & Other Development Costs			$ 9,000.0
	Total Invested		$ 48,750.0
30% Contingency		30.0%	$ 14,625.0
	Subtotal		$ 63,375.0
7.1% AGUDC		7.1%	$ 6,749.4
	Total		$ 70,124.4

AKLNG Expenditure Summary: It is anticipated that AGDC will need a total of $194,277.8 to cover it's AKLNG related expenditures through FY17 as summarized in the table below. At this time, AGDC is requesting a total appropriation of $67,264.5, the amount necessary to fund FY14 & FY15 operating and capital expenses. Approximately $11,265.0 of that will be drawn down in FY14 and $55,999.5 in FY15.

AKLNG Pre-FEED Expenditures	FY14 Supp	FY15	FY16	FY17	Total
AGDC Operating Expenses					
Personal Services	$ 246.0	$ 1,476.0	$ 1,476.0	$ 1,476.0	$ 4,674.0
Travel	$ 160.7	$ 964.0	$ 964.0	$ 964.0	$ 3,052.6
Services (Lease)	$ -	$ 329.4	$ 329.4	$ 329.4	$ 988.2
Capital Outlay (Equipment)	$ -	$ 230.0	$ -	$ -	$ 230.0
AKLNG Capital Expenses					
AGDC Contractual Services	$ 858.3	$ 5,150.1	$ 5,150.1	$ 3,950.0	$ 15,108.5
Equity Participation LNG Facility	$ 10,000.0	$ 47,850.0	$ -	$ -	$ 57,850.0
40% Option on TC Mid-Stream	$ -	$ -	$ 42,250.0	$ -	$ 42,250.0
Guarantee of TC Dev Costs	$ -	$ -	$ 70,124.4	$ -	$ 70,124.4
	$ 11,265.0	**$ 55,999.5**	$ 120,293.9	$ 6,719.4	$ 194,277.8

Supplemental Request: Through a separate fiscal note, AGDC is requesting a FY14 supplemental appropriation of $67,264.5 UGF to initially capitalize the Alaska Liquefied Natural Gas Project Fund. This is the minimum amount necessary to fund all the Corporation's FY14 and FY15 AKLNG pre-FEED activities. A future appropriation of $127,013.3 will be required to fund AGDC's continued participation in pre-FEED for FY16 and FY17 ($14,638.9), to exercise the State's 40% mid-stream option ($42,250.0) and to reimbursement TC's development costs in the event they exit the deal prior to FEED ($70,124.4).

Fund Source: A new fund - *Alaska Liquefied Natural Gas Project Fund* - is created in this legislation to fund expenditures related to the AKLNG project. The fund will need to be capitalized through a separate appropriation at an amount sufficient to cover AGDC's costs as detailed elsewhere in this note. Once appropriated to the fund, the legislation authorizes AGDC to spend money out of the fund for AKLNG related expenditures as they occur, without further appropriation. AGDC intends to institute procedures similar to those currently being used to track ASAP Project expenditures that are funded through the existing In-State Natural Gas Pipeline Fund (1229).

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HCS CSSB 138(FIN)
Fiscal Note Number: 22
(H) Publish Date: 4/18/14

Identifier: SB138-DPT-STWD-4-18-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: HFIN

Department: Department of Transportation and Public Facilities
Appropriation: Design, Engineering and Construction
Allocation: Statewide Design and Engineering Services
OMB Component Number: 2357

Expenditures/Revenues
Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services		65.0	65.0	***	***	***	***
Travel		5.0	5.0				
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**0.0**	**70.0**	**70.0**	***	***	***	***

Fund Source (Operating Only)

1061 CIP Rcpts	(70.0)	70.0					
1236 AKLiqNGI/A	70.0		70.0				
Total	**0.0**	**70.0**	**70.0**	***	***	***	***

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS
Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

This revised fiscal note replaces UGF code 1004 with the new Alaska Liquefied Natural Gas Project Fund – I/A fund code 1236. Funding will pass directly from the Alaska Liquefied Natural Gas Project Fund to the department for services provided via a Reimbursable Services Agreement (RSA).

Prepared By: Co-Chair Representative Austerman
House Finance Committee
Co-Chair Representative Stoltze
House Finance Committee

Phone: (907)465-6258
Date: 04/18/2014

FISCAL NOTE ANALYSIS #22

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HCS CSSB 138(FIN)

Analysis

An Engineer/Architect IV, Range 26 will serve as the technical expert and will work with the Alaska Gasline Development Corporation (AGDC) and its other partners as appropriate on the needs and impacts related to the Alaska liquified natural gas project. Travel is being included for this position for the associated meetings.

A second Engineer/Architect IV, Range 26 will evaluate the design and construction of a new, separate bridge across the Yukon River that would accommodate both vehicular traffic and a gas pipeline resulting from an Alaska liquified natural gas project.

Positions are currently funded with capital improvement project receipts and the department will need general funds for these new functions.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HCS CSSB 138(FIN)
Fiscal Note Number: 24
(H) Publish Date: 4/18/14

Identifier: SB138-DOR-NGC-04-18-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: HFIN

Department: Department of Revenue
Appropriation: Administration and Support
Allocation: Natural Gas Commercialization
OMB Component Number: 2859

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services				***	***	***	***
Travel							
Services	2,500.0		150.0				
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**2,500.0**	**0.0**	**150.0**	***	***	***	***

Fund Source (Operating Only)

1236 AK LNG I/A	2,500.0		150.0				
Total	**2,500.0**	**0.0**	**150.0**	***	***	***	***

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

This revised fiscal note replaces UGF code 1004 with the new Alaska Liquefied Natural Gas Project Fund –I/A fund code 1236. Funding will pass directly from the Alaska Liquefied Natural Gas Project Fund to the department for services provided via a Reimbursable Services Agreement (RSA).

The fiscal note also reflects an increase to the Alaska Affordable Energy Fund and expanded the scope of reports to be developed by the Commissioner of Revenue. Title change to this fiscal note is to correct funding component, for budgetary tracking purposes.

Prepared By: Co-Chair Representative Austerman, House Finance Committee; Co-Chair Representative Stoltze, House Finance Committee
Phone: (907)465-6258
Date: 04/18/2014

FISCAL NOTE ANALYSIS #24

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HCS CSSB 138(FIN)

Analysis

This bill would help the state move forward as a partner in a large scale Alaska Liquefied Natural Gas Project. While the bill itself contains numerous sections that affect other departments or corporations in the state, the analysis done for this fiscal note is limited to the two provisions relating to the Affordable Energy Fund and financing in the Department of Revenue.

1.) The bill would establish the Alaska Affordable Energy Fund to provide a source from which the legislature may appropriate money to develop infrastructure to deliver energy to areas of the state that are not expected to have or do not have direct access to a North Slope natural gas pipeline. This fiscal note assumes that this fund would be established as one of many funds managed as part of the GeFonsi and therefore, no additional costs are envisioned to manage the fund. The fiscal note does not reflect an indeterminate change in revenues due to the fact that there are no projected royalty revenues before 2024. Current estimates by the Administration's consultants are that 20% of royalty revenues would exceed $180 million annually over the life of the project.

2.) The bill directs the Commissioner of Revenue to provide a report to the Legislature on the range of financing options for state acquisition of an ownership interest and participation in a North Slope natural gas project. The Commissioner will provide an interim draft report to the Legislature at the beginning of the first regular session of the 29th Alaska State Legislature. When contracts negotiated to advance the AKLNG project to FEED are presented to the Alaska State Legislature, the Commissioner will issue a final report of the financing options. That report must also include the development a plan for municipalities, regional corporations and residents to participate in the ownership of a North Slope natural gas pipeline. The plan must include recommendations by the Commissioner of Revenue regarding:

-Qualifications as a resident that may invest in the pipeline
-How a municipality, regional corporation or resident may invest in the pipeline
-The entity through which ownership should be acquired
-The notification process to residents acquiring ownership
-Ownership transferability
-If ownership is via the State's interest in the pipeline, how income or dividends will be shared with resident owners
-If ownership is via a publicly traded corporation that has an ownership interest in the pipeline, how those publicly traded corporations will be identified.

In order to develop the above reports and recommendations, the department will require substantial subject matter expertise. The department estimates that these contracted services will cost $2,500,000 during FY15 and $150,000 during FY16. The funding is requesed in the Natural Gas Commercialization component.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HCS CSSB 138(FIN)
Fiscal Note Number: 25
(H) Publish Date: 4/18/14

Identifier: SB138HCSCS(FIN)-DOR-TAX-04-18-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: (H) FIN

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues
Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services							
Travel							
Services	750.0						
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**750.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Fund Source (Operating Only)

1004 Gen Fund	750.0						
Total	**750.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS
Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 12/31/15

Why this fiscal note differs from previous version:
Updated for House Finance amendments on 04/18/14.

Prepared By: Michael R. Pawlowski, Deputy Commissioner
Phone: (907)269-1033
Division: Revenue
Date: 04/18/2014 12:04 AM
Approved By: Angela M. Rodell, Commissioner
Date: 04/18/14
Agency: Department of Revenue

FISCAL NOTE ANALYSIS #25

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HCS CSSB 138(FIN)

Analysis

Bill Language:
This bill would help the state to move forward as a partner in a large natural gas project, including liquefaction facilities. It gives the Commissioner of DNR, in consultation with the Commissioner of Revenue, the ability to take custody of gas delivered to the state and manage the disposition and sale of that gas. The main tax provision of the bill would allow gas producers to make an election to pay their production tax liabilities with gas (tax as gas "TAG") instead of with money.

This bill also expands the education tax credit allowed against the oil and gas production tax to include contributions made to vocational education for equipment and for contributions made to a nonprofit regional training center recognized by the Department of Labor, an apprenticeship program in the state that is registered with the U.S. Department of Labor, programs approved by the United States Department of Veterans Affairs and the Alaska Commission on Postsecondary Education. This bill does not increase or decrease the aggregate amount of total education tax credits allowed against the oil and gas production tax. It merely identifies additional types of contributions that can qualify for the credit. It is possible that taxpayers who have not made qualifying contributions and not claimed an education tax credit in the past, may make contributions to these entities for these purposes. However, it is difficult to determine how this language will affect taxpayer behavior and, therefore, it is difficult to determine if this bill will affect revenue from the oil and gas production tax. This bill does not increase the maximum education tax credit amount which is currently limited to $5 million per taxpayer.

Currently, there are 8 tax types for which an education tax credit can be claimed. The total amount a taxpayer can claim across all eight tax types is $5 million. The language in this amendment will only affect the oil and gas production tax. Therefore, contributions made to these new entities can only be claimed as a credit against the oil and gas production tax.

The effect on revenue for this language is indeterminate.

While the bill itself has numerous sections that affect other departments or corporations in the state, the analysis done for this fiscal note is limited to the tax provisions contained in the bill.

Revenues:
The department is unable to determine the amount of revenue that will be created by this bill in the future. Taxable gas production is not expected until after 2022, so no new revenues from a large gas project would be expected during the timeframe (through FY-20) of this fiscal note.

Expenditures:
The department is currently in the process of implementing its new Tax Revenue Management System (TRMS), for which the legislature appropriated approximately $35 million for during the 2011 session. If this bill passes, we will need to amend the current contract with FAST Enterprises to allow for them to reconfigure TRMS to reflect these tax law changes. DOR estimates that it will incur an additional expense of approximately $500,000 to reconfigure the system.

Regulations:
The department expects it will need to enter into expanded RSA's with the Department of Law to assist in drafting regulations to help the department implement the new law. DOR estimates that it will incur an additional expense of approximately $250,000 to retain the necessary resources to assist with a regulations project of this magnitude.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: HCS CSSB 138(FIN)
Fiscal Note Number: 26
(H) Publish Date: 4/18/14

Identifier: SB138-DNR-NSG-04-18-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: HFIN

Department: Department of Natural Resources
Appropriation: Administration & Support Services
Allocation: North Slope Gas Commercialization
OMB Component Number:

Expenditures/Revenues
Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY 2015**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**
Personal Services	1,769.7						
Travel	102.0						
Services	7,115.0						
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	**8,986.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Fund Source (Operating Only)

1004 Gen Fund	8,986.7						
Total	**8,986.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Positions

Full-time	6.0						
Part-time							
Temporary							

Change in Revenues							

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS
Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 03/31/15

Why this fiscal note differs from previous version:

This revised fiscal note appropriates one-time funding in FY15.

Prepared By: Co-Chair Representative Austerman, House Finance Committee; Co-Chair Representative Stoltze, House Finance Committee
Phone: (907)465-6258
Date: 04/18/2014

Printed 4/18/2014

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HCS CSSB 138(FIN)

Analysis

This bill establishes the framework for state participation in a large natural gas project by giving the Commissioner of the Department of Natural Resources (DNR) the authority to enter into upstream and downstream commercial agreements related to a North Slope natural gas project. It also gives the DNR Commissioner, in consultation with the Commissioner of Revenue, the authority to manage the project services and disposition and sale of tax-as-gas (TAG) gas from the Department of Revenue (DOR).

With passage of this bill, the DNR Commissioner, in consultation with the DOR commissioner, will enter into contractual agreements related to the state's equity position in the project. DNR's role is to make sure that the state's equity participation complements and facilitates the state's royalty and TAG gas marketing efforts. The contracts, equity arrangements, and gas sales agreements will be subject to legislative approval and will define the state's relationship with the parties and potential gas customers during the life of a North Slope natural gas project. Each contract, arrangement, and agreement will be conditioned on continued progress of a North Slope gas project and will establish how value will be shared among the parties and manage the state's exposure to commercial risks.

Most of these agreements will be negotiated during the 12–18 months following passage of this legislation so that the state and the other parties in the project can be in a position to commit to the Front-End Engineering Design (FEED) phase. This pre-FEED work will provide the state with the information necessary to make the investment decision to enter into FEED. Equity partners will spend more than a billion dollars during FEED.

With the rights and obligations defined in the agreements, DNR will be able to structure its royalty and TAG gas marketing efforts. The marketing organization may include the potential utilization of a marketing subsidiary of AGDC or may leverage the Producers' marketing organizations and expertise, per Article 8.3 of the Heads of Agreement (HOA), resulting in a smaller state organization than might otherwise be required.

The DNR commissioner will need the support, expertise, and involvement of a variety of experts to inform the state's decisions, including:

- When the state takes its royalty and TAG gas, it will become more aligned with the North Slope gas producers than has ever been the case historically. DNR will enter into production offtake agreements and gas balancing agreements. The DNR Commissioner may modify the state's oil and gas lease terms, including modification of the lease royalty rates not less than the value the state would have received before a modification, treatment of lease net profit share provisions, field costs, and the state's rights to take royalty gas in-value.

- The DNR commissioner will enter agreements to define gas treatment costs, transportation tolls/tariffs, and liquefaction services. These agreements will also be designed to manage capacity and arrange for expansion of the project, if needed, and must accommodate changes in equity ownership. DNR will forge contractual arrangements with the producers and other industry parties participating in the project as well as state entities who may be part of the project initially or who may take over ownership later.

- The marketing of the state's gas will depend on the rights and obligations that will be defined in the agreements. As time progresses, DNR must make decisions about how it will supply royalty and TAG gas to the domestic and international markets. Gas supply agreements are likely to be long-term and may include mechanisms to attract additional investment capital into the project. Planning and design of the marketing organization will occur during the pre-FEED phase.

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HCS CSSB 138(FIN)

Analysis Continued

Allocation: DNR will create a separate allocation code for expenditures related to the commercial production of North Slope natural gas for ease of tracking appropriations.

Expenditures: DNR will create in-house capacity to provide the administration with consistent and well-informed advice throughout the initial negotiations and to manage experts as needed through this process. This team will provide consistent support throughout the pre-FEED phase and will be in place to manage the marketing role. Establishing this capacity now and preserving it as the project develops is essential to facilitate the state's effective participation in the project.

The team will be involved in negotiating, crafting agreements, managing expert consultants at each of the project phases, monitoring the agreements as the project progresses and conditions are met or changed, and preserving and protecting confidential information provided by the state's counterparties.

This team will include a lead expert analyst; four subject matter experts specializing in commercial aspects of upstream, gas treatment and pipeline transportation, liquefaction, and international marketing; and a project assistant responsible for contract management, recordkeeping and administrative support, as follows:
- 1 Lead Expert Analyst (exempt)- $349.8 annual salary and benefits
- 4 Subject Matter Expert Analysts (exempt) - $323.7 annual salary and benefits each (total of $1,294.8)
- 1 Project Assistant (range 20) - $125.1 annual salary and benefits

Total Personal Services: $1,769.7

It is anticipated that the lead expert analyst and four subject matter expert analysts will need to make trips to Asia to conduct market research and outreach. DNR estimates that each will make quarterly trips at an estimated cost of $5.1 per trip. **Total Travel Expenses: $102.0**

Contract services include:
- $4,000.0 for substantial subject matter expertise to support the DNR commissioner and team including deal origination, deal analysis, market monitoring, infrastructure analysis, commercial contracting, financial and credit analysis, risk control and analysis, and imbalance reconciliation
- Reimbursable Service Agreements to the Department of Law: $3,000.0 for legal advice from outside counsel on commercial and financial agreements, transactional negotiations and agreements, federal jurisdictional, statutory and regulatory issues and in-house attorney services ($250.0 per month)
- DOA core service charges, lease space, and office supplies: $15.0 per position ($90.0 for 6 positions)
- Research, draft, compile, print and distribute a required report to the legislature on a plan and alternatives to make North Slope natural gas available for delivery and use in the state ($25.0)

Total Contract Services: $7,115.0

It is anticipated that the decision to proceed into FEED will take place by the end of FY16. Impacts in FY17 and beyond are indeterminate at this time; however, pre-FEED will help determine the potential costs leading up to the FEED phase.

Revenues: No new revenues from a large gas project would be expected during the timeframe (through FY20) of this fiscal note. Revenues from a North Slope gas project could be realized as soon as FY22.

Regulations: DNR expects it will need to amend its regulations as they pertain to the disposition of royalty oil and gas to include TAG gas.