

CS FOR HOUSE BILL NO. 250(O&G)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Offered: 4/24/97

Referred: Resources, Finance

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing a North Slope Gas Commercialization Team to develop
2 recommendations regarding a North Slope gas project; and providing for an
3 effective date."

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

5 * Section 1. FINDINGS. The legislature finds that

6 (1) Alaska's North Slope contains abundant natural gas resources, with an
7 estimated 26 trillion standard cubic feet of recoverable natural gas in the Prudhoe Bay field,
8 an estimated three to five trillion standard cubic feet in the Pt. Thompson field, an estimated
9 two to six trillion standard cubic feet in the Kuparuk, Lisburne, and Endicott fields combined,
10 and other as yet unquantified gas resources;

11 (2) although the major Prudhoe Bay leaseholders and others have examined
12 a variety of options for future development and sale of North Slope gas, a project in which
13 North Slope gas is delivered to Asian markets as liquefied natural gas (LNG) has emerged as
14 an option of particular interest;

1 (3) the Department of Revenue recently commissioned a study by a leading
2 expert on tax and royalty systems applicable to oil and gas development; the study concluded
3 that the state's current tax and royalty structure, relative to that of other current and potential
4 LNG exporting countries, reduces the economic feasibility and competitiveness of a North
5 Slope gas project;

6 (4) that study also concluded that the North Slope producers' estimated project
7 costs of \$15,000,000,000 must be reduced, the federal tax regime must be changed, perhaps
8 through the adoption of accelerated depreciation and investment tax credits, and the time from
9 the commencement of the project to the achievement of its target capacity should be
10 shortened, if possible, to help make the project economically feasible and competitive;

11 (5) that study recommended that the state amend the tax and royalty structure
12 applicable to the project and increase the certainty and stability of that structure;

13 (6) the executive branch recently signed memoranda of understanding with the
14 three major Prudhoe Bay leaseholders and Yukon Pacific Corporation;

15 (7) in 1997, the Twentieth Alaska State Legislature passed Legislative
16 Resolve 2 (CSHCR 1 (WTR)), which supports a North Slope gas project, recognizes that a
17 window of opportunity now exists, and encourages the governor to work with leaseholders of
18 North Slope natural gas resources, permit holders, the legislature, and the federal government
19 to develop and complete an LNG project to transport and market North Slope natural gas by
20 the year 2005;

21 (8) modifications to the federal tax regime are required;

22 (9) proposals by the governor for changes to the state's tax and royalty
23 structure should be made to the legislature only after careful examination of the potential
24 ramifications of the changes, under a wide range of economic conditions, in light of the state's
25 obligation to provide for the utilization, development, and conservation of North Slope gas
26 resources for the maximum benefit of Alaskans; and

27 (10) consistent with Legislative Resolve 2, the establishment of a North Slope
28 Gas Commercialization Team is appropriate to research and to enter into discussions with
29 potential project sponsors who have declared an interest in the project and who continue to
30 show an interest in the project, and to make recommendations to policymakers on these
31 important matters.

* **Sec. 2.** NORTH SLOPE GAS COMMERCIALIZATION TEAM; REPORT. (a) There is established a North Slope Gas Commercialization Team to research and recommend changes to state law and, in particular, to the state tax and royalty structure on natural gas, to improve the economic feasibility and competitiveness of a North Slope gas project. The members of the team are

- (1) the commissioner of revenue, or the commissioner's designee;
- (2) the commissioner of natural resources, or the commissioner's designee; and
- (3) the attorney general, or the attorney general's designee.

(b) The North Slope Gas Commercialization Team shall gather, compile, and analyze information on ways to improve the economic feasibility and competitiveness of a North Slope gas project through changes in state and federal statutes and regulations and existing state leases.

(c) The North Slope Gas Commercialization Team shall prepare a report that includes the following:

(1) recommended terms that would be a basis for a contract to be entered into between the state and the potential sponsors of a North Slope gas project that reflect

(A) the changes to the state tax and royalty structure needed to improve the economic feasibility and competitiveness of the project; and

(B) other provisions that are needed to make a contract binding, to the full extent permitted by the Constitution of the State of Alaska, and to make it consistent with the public interest and the state's obligation to provide for the utilization, development, and conservation of North Slope gas resources for the maximum benefit of Alaskans; and

(2) recommended provisions that could be included in legislation needed or appropriate to

(A) enter into a contract;

(B) provide an appropriate and stable fiscal environment for the project;

(C) provide an appropriate and stable regulatory structure for, and aid permitting of, the project;

(D) ensure, consistent with the limits imposed by state and federal law and the need for competitively priced goods and services, that a maximum number of

1 Alaska residents and Alaska businesses that are qualified or capable of being qualified
2 are hired to construct and operate the project;

3 (E) protect the environment and the health and safety of workers and
4 the public; and

5 (F) provide natural gas to Alaska communities where economically,
6 technically, and legally feasible.

7 (d) The North Slope Gas Commercialization Team shall deliver its final report to the
8 governor by January 12, 1998.

9 * **Sec. 3. MEETINGS AND RECORDS.** (a) The North Slope Gas Commercialization
10 Team shall solicit written comments on the recommendations to be included in the final report
11 required by sec. 2 of this Act from interested members of the public and shall hold a public
12 meeting under AS 44.62.310 - 44.62.312 to vote on and issue its final report, including its
13 recommendations.

14 (b) Notwithstanding (a) of this section or a provision of AS 44.62.310 - 44.62.312,
15 the North Slope Gas Commercialization Team is not a governmental body or public entity for
16 purposes of AS 44.62.310 - 44.62.312.

17 (c) Notwithstanding AS 09.25.100 - 09.25.220, records requested by the North Slope
18 Gas Commercialization Team from a potential sponsor of a North Slope gas project and
19 working documents prepared by the team that analyze or incorporate the requested records
20 shall be kept confidential if the records or working documents contain sensitive, proprietary,
21 or privileged information and the potential sponsor requests that the records or working
22 documents be kept confidential.

23 * **Sec. 4. LEGAL ASSISTANCE.** The Department of Law shall provide legal assistance
24 to the North Slope Gas Commercialization Team.

25 * **Sec. 5. PERMANENT RECORD RETENTION; CONFIDENTIALITY.** On or before
26 the date that the team's final report is provided to the governor under sec. 2 of this Act, the
27 North Slope Gas Commercialization Team shall transfer to the custody and control of the
28 Department of Revenue all records in the possession of the team, including the team's
29 working documents and records requested from others. Notwithstanding AS 09.25.100 -
30 09.25.220 and sec. 6 of this Act, after the transfer of records under this section, the
31 Department of Revenue shall continue to keep confidential all records and working documents

1 that were required to be kept confidential under sec. 3(c) of this Act.

2 * **Sec. 6.** SUNSET PROVISION. Sections 1 - 4 of this Act are repealed on the earlier of
3 the date that the governor notifies the revisor of statutes and the lieutenant governor that the
4 final report prepared under sec. 2 of this Act was delivered to the governor under sec. 2(d)
5 of this Act or January 12, 1998.

6 * **Sec. 7.** This Act takes effect immediately under AS 01.10.070(c).