

HOUSE BILL NO. 250

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 4/14/97

Referred: House Special Committee on Oil and Gas, Resources, Finance

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
7 approximately 26 trillion standard cubic feet of recoverable natural gas in the Prudhoe Bay
8 field, an estimated three to five trillion standard cubic feet in the Pt. Thompson field, perhaps
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) natural gas in at least the Prudhoe Bay field coexists and is produced with
12 marketable oil and, lacking a market for much of the gas, it has been returned to the reservoir
13 where it provides for enhanced long-term oil production and is saved for future gas sales;

14 (3) although the major Prudhoe Bay leaseholders and others have examined

1 at considerable cost a variety of options for future development and sale of North Slope gas,
2 a project in which North Slope gas is delivered to Asian markets as liquefied natural gas
3 (LNG) has emerged as an option of particular interest;

4 (4) the Department of Revenue recently commissioned a study by a leading
5 expert on tax and royalty systems applicable to oil and gas development; the study concluded
6 that the project is uneconomic now and that, given certain assumptions, the state's current tax
7 and royalty structure, relative to that of other current and potential LNG-exporting countries,
8 reduces the economic feasibility and competitiveness of a North Slope gas project in at least
9 two ways: first, by requiring investors to pay large amounts to the state early in the project's
10 life; and second, by failing to adjust the state's share of the project's economic value relative
11 to the project's profitability;

12 (5) this study also concluded that the North Slope producers' estimated project
13 costs of \$15 billion must be reduced substantially, the federal tax regime must be changed,
14 perhaps through the adoption of accelerated depreciation and investment tax credits, a willing
15 market for the gas must be found, and the time from the commencement of the project to the
16 achievement of its target capacity should be shortened, if possible, to help make the project
17 economically feasible and competitive;

18 (6) this study recommended that the state amend the tax and royalty structure
19 applicable to the project and increase the certainty and stability of that structure;

20 (7) the executive branch recently signed memoranda of understanding with
21 the three major Prudhoe Bay leaseholders and Yukon Pacific Corporation establishing a
22 framework for cooperation and shared responsibility for the work that needs to be done to try
23 to make a North Slope gas project economically feasible and competitive; these memoranda
24 recognized that

25 (A) an important potential benefit of the project is the employment of
26 Alaska residents and Alaska businesses in the construction and operation of the project;

27 (B) competitively priced goods and services are needed to assist in
28 achieving a commercially viable project; and

29 (C) the parties are determined to find suitable voluntary measures to
30 successfully ensure that a maximum number of Alaska residents and Alaska businesses
31 that are qualified, or capable of being qualified, are hired to construct and operate the

1 project;

2 (8) the Twentieth Alaska State Legislature passed 1997 LR 2 (CSHCR 1
3 (WTR)) in further support of a North Slope gas project, and encouraged the governor to
4 identify changes to the state's tax and royalty structure that would best facilitate a North Slope
5 gas project and develop with the leaseholders of the North Slope gas resources a contract, for
6 execution with the parties that appear likely to be sponsors of a project, and enabling
7 legislation that incorporates these changes;

8 (9) modification of the state's tax and royalty structure, although an important
9 step, by itself is insufficient to make the project a reality; significant cost reductions,
10 formation of a project structure, favorable market conditions, and modifications to the federal
11 tax regime are also required;

12 (10) any proposals by the governor for changes to the state's tax and royalty
13 structure should be made to the legislature only after careful examination of the potential
14 ramifications of the changes, under a wide range of economic conditions, in light of the

15 (A) numerous complex and interrelated issues that the changes would
16 raise;

17 (B) non-renewable nature of the resources that the project would use;

18 (C) strain on public services that the project would create;

19 (D) numerous stakeholders whose interests must be considered;

20 (E) legislature's intent that such changes establish the extent of the
21 state's share of the project's benefits well into the 21st century;

22 (F) uncertain nature of the project's costs, scope, and structure; and

23 (G) state's obligation to provide for the utilization, development, and
24 conservation of North Slope gas resources for the maximum benefit of Alaskans; and

25 (11) consistent with 1997 LR 2, the establishment of a North Slope Gas
26 Commercialization Team is appropriate to research, to enter into discussions with leaseholders
27 of North Slope gas resources and others, and to make recommendations to policymakers on
28 these important matters.

29 * **Sec. 2. NORTH SLOPE GAS COMMERCIALIZATION TEAM; REPORT.** (a) There
30 is established a North Slope Gas Commercialization Team to research and recommend changes
31 to state law, and in particular, changes to the state tax and royalty structure, to improve the

1 economic feasibility and competitiveness of a North Slope gas project. The members of the
2 team are

- 3 (1) the commissioner of revenue, or the commissioner's designee;
- 4 (2) the commissioner of natural resources, or the commissioner's designee;
- 5 (3) the commissioner of commerce and economic development, or the
6 commissioner's designee;
- 7 (4) the commissioner of labor, or the commissioner's designee;
- 8 (5) the attorney general, or the attorney general's designee; and
- 9 (6) other state officers or employees appointed by the governor.

10 (b) The governor shall designate a chair from the members of the North Slope Gas
11 Commercialization Team. A member appointed under (a)(6) of this section serves at the
12 pleasure of the governor.

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

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

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

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

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

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

30 (A) enter into a contract;

31 (B) provide an appropriate and stable long-term fiscal environment for

1 the project;

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

4 (D) ensure, consistent with the limits imposed by state and federal law
5 and the need for competitively priced goods and services, that a maximum number of
6 Alaska residents and Alaska businesses that are qualified or capable of being qualified
7 are hired to construct and operate the project;

8 (E) protect the environment and the health and safety of workers and
9 the public; and

10 (F) provide natural gas to Alaska communities where economically,
11 technically, and legally feasible; and

12 (3) recommendations regarding

13 (A) whether state participation in a North Slope gas project is
14 appropriate or advisable and, if so, the manner and scope of that participation; and

15 (B) further action necessary to ascertain or alleviate the anticipated
16 socioeconomic impacts of a North Slope gas project.

17 (e) The North Slope Gas Commercialization Team shall deliver its final report to the
18 governor by February 13, 1998 and notify the legislature that the final report is available,
19 except that if the North Slope Gas Commercialization Team determines that additional work
20 needs to be done to develop a comprehensive set of recommendations, the team shall, by
21 February 13, 1998, provide to the governor and the legislature an interim report on the work
22 that the team has completed, the work remaining to be done, the reasons for the additional
23 time needed, and the anticipated date on which the final report will be provided to the
24 governor and notification of the report's availability will be provided to the legislature.

25 * **Sec. 3. MEETINGS AND RECORDS.** (a) The North Slope Gas Commercialization
26 Team shall solicit suggestions for or comments on the recommendations to be included in the
27 final report required by sec. 2 of this Act from interested members of the public and shall hold
28 a public meeting under AS 44.62.310 - 44.62.312 to vote on and issue its final report,
29 including its recommendations.

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

1 purposes of AS 44.62.310 - 44.62.312.

2 (c) Notwithstanding AS 09.25.100 - 09.25.220, records requested by the North Slope
3 Gas Commercialization Team from a potential sponsor of a North Slope gas project and
4 working documents prepared by the team that analyze or incorporate the requested records
5 shall be kept confidential if the records or working documents contain sensitive, proprietary,
6 or privileged information and the potential sponsor requests that the records or working
7 documents be kept confidential.

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

10 * **Sec. 5. PERMANENT RECORD RETENTION; CONFIDENTIALITY.** On or before
11 the date that the team's final report is provided to the governor under sec. 2 of this Act, the
12 North Slope Gas Commercialization Team shall transfer to the custody and control of the
13 Department of Revenue all records in the possession of the team, including the team's
14 working documents and records requested from others. Notwithstanding AS 09.25.100 -
15 09.25.220 and sec. 6 of this Act, after the transfer the Department of Revenue shall continue
16 to keep confidential all records and working documents that were required to be kept
17 confidential under sec. 3(c) of this Act.

18 * **Sec. 6.** Sections 1 - 4 of this Act are repealed on the date that the governor notifies the
19 revisor of statutes and the lieutenant governor that the final report prepared under sec. 2 of
20 this Act was provided to the governor.

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