FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number:	1
Bill Version:	CSHB 519(O&G)
(H) Publish Date:	4/22/02
Dept. Affected:	Natural Resources
BRU:	Oil and Gas Developmen
Component:	Oil and Gas Developmen
Component Number:	439

Revision Date/Time (Note if correction):

Title: Natural Gas Pipeline: Special Provisions

Sponsor: House Rules Committee

Requester: House Oil and Gas

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Personal Services	*See Note on Page 2:*					
Travel	40.0	40.0				
Contractual	125.0	125.0				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**165.0**	**165.0**	**0.0**	**0.0**	**0.0**	**0.0**
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )			***See Below**			

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	40.0	40.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Stat. Des. Prog. Receipts	125.0	125.0				
TOTAL	**165.0**	**165.0**	**0.0**	**0.0**	**0.0**	**0.0**

Estimate of any current year (FY2002) cost: none

Check this box (X) if funding for this bill is included in the Governor's FY2003 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill, in reviving the Alaska Stranded Gas Development Act, allows the state, with the concurrence of its North Slope oil and gas lessees, to: (1) establish a valuation methodology for the state's royalty share of gas production, and (2) modify existing requirements regarding the timing and notice of the state's right to take royalty in-kind or in-value.

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Division	Oil and Gas	Date/Time	18-Apr-02
Approved by:	Pat Pourchot	Date	18-Apr-02
Agency	Natural Resources		

* HB 519, by extending the Stranded Gas Act, authorizes negotiations to "establish" a valuation method for the state's royalty share of gas production from an approved qualified project. Actually, a valuation methodology already exists in the state's oil and gas leases. Generally, that methodology requires the payment of royalties on the highest of: (1) the market value of the gas; (2) the lessee's actual proceeds from the sale of its own gas; or (3) an average of the actual proceeds of other proximate lessees from the sale of their own gas. Consequently, any valuation methodology agreed to through negotiations conducted under HB 519 may result in the collection of lower royalties than would be available under the existing valuation methodology. In fact, every $0.01/mcf difference in royalties due under alternative valuation methodologies results in a $36.5 million impact on the state treasury over 20 years for a 4 bcfd pipeline, and a $54.7 million impact for a 6 bcfd pipeline. However, it is impossible to determine at this time whether a new valuation methodology would be agreed to under HB 519 and, if so, whether and to what extent it would reduce royalty payments to the state.

DNR estimates that HB 519, if passed, would require at least $330,000 in expenditures to address any application to "establish" a royalty valuation method, $250,000 of which would be reimbursed over a 2-year period by the applicant for change in methodology. DNR will need to obtain access to and review extensive documentation pertaining to the economics of any proposal, then engage in complex negotiations with multiple sophisticated oil and gas corporations. This effort will require diversion of existing and proposed staff from their currently assigned duties, the retention of one or more experts, and travel. Currently, we anticipate that much of the work envisioned by this bill would fall on the Division's Petroleum Investments Manager, Petroleum Market Analyst, and a Commercial Analyst, as well as an additional Pipeline Commercial Analyst, requested in the FY03 budget. One or more experts would need to be retained to assure that royalty relief is not inadvertently or imprudently given, though the cost of that expert or those experts is to be borne by the applicant. Finally, significant sums would be needed for travel and document reproduction and indexing expenses.

The cost of the independent consultants allowed under AS 43.82.240 to assist in the evaluation of a request to change the royalty valuation methodology could be reimbursed by the applicant. The statute allows the state to condition any contract on agreement by the applicant to reimburse the state for the expenses of the independent contractors. Those funds are requested as authority to receive and expend statutorily designated program receipts. Those costs are $125,000 each in Fiscal 2003 and Fiscal 2004.

NOTE:
The estimated costs are split into two years for purposes of this fiscal note, however it is difficult to determine how much would actually be required in each year. The solution is to fund the full amount ($330,000) as a single appropriation with a two-year lapse date.