

# FISCAL NOTE

**STATE OF ALASKA**  
**2002 LEGISLATIVE SESSION**

Fiscal Note Number: 3  
 Bill Version: SB 360  
 (S) Publish Date: 4/18/02

Revision Date/Time (Note if correction): \_\_\_\_\_  
 Title: Alaska Natural Gas Project Act

Dept. Affected: Natural Resources  
 BRU: Oil and Gas Developmen  
 Component: Oil and Gas Developmen

Sponsor: Senate Resources  
 Requester: Senate Resources

Component Number: 439

**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						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>	<b>165.0</b>	<b>165.0</b>				
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<b>CHANGE IN REVENUES ( )</b>			<b>*See Below</b>			
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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 would authorize DNR to waive, reduce, or defer royalties on North Slope gas if: 1) an applicant provides clear and convincing evidence that royalty relief will make an uneconomic project economic; 2) the applicant and DNR Commissioner have entered into an agreement to begin pipeline construction by a certain date; 3) DNR has considered any other financial incentives granted by other jurisdictions; 4) the applicant has obtained certain certificates including certificates from the Dept. of Labor and the Regulatory Commission of Alaska; and 5) the Legislature approves the royalty relief.

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Prepared by: Bonnie Robson  
 Division: Oil and Gas  
 Approved by: Pat Pourchot  
 Agency: Natural Resources

Phone 269-8800  
 Date/Time 12-Apr-02  
 Date 15-Apr-02

\* It is impossible to determine at this time whether the state will waive, reduce, or defer any royalties on North Slope gas. However, because waiver, reduction, and deferral are only authorized if and to the extent necessary to make an uneconomic project economic, any waiver, reduction, or deferral should not result in the loss of royalties that would have otherwise been received. Otherwise stated, if there is no project and hence no marketing of North Slope gas, no royalties will be paid; hence, if royalty relief enables a project, any royalties received from that project--even reduced royalties--would exceed royalties received in the absence of a project. The only danger exists in granting royalty relief where none is actually needed. In that case, the fiscal impact could be substantial. For example, if royalties are waived when they would otherwise be \$1 per mcf, over the course of 20 years the state could lose up to \$3.65 billion. However, the bill contains safeguards designed to minimize the risk of unnecessary waiver of royalties.

Unfortunately, the safeguards are not self-executing. If an applicant seeks royalty relief, DNR will need to obtain access to and review extensive documentation pertaining to the economics of the project, as well as financial incentives being offered by other jurisdictions, 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 at an estimated cost of \$250,000 to assure that royalty relief is kept to the bare minimum necessary. Additionally, DO&G estimates that \$80,000 would be needed for staff and expert travel related expenses (\$2,500 per trip x 4 people x 4 trips x 2 years = \$80,000). These sums could be appropriated by the legislature, or SB 360 could be modified to allow recoupment of at least the expert expenses from the applicant(s).

The Division has spread the capital costs identified above (\$250,000 + \$80,000 = \$330,000) over two fiscal years to reflect not only the duration of investigation and negotiations contemplated, but also that a preliminary investigation in a single year might establish that royalty relief is not needed to make an uneconomic project economic, in which case a second year of expenses might be avoided.