

HB

250

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 25, 1997

FURTHER REFERRALS:

Date of Committee Action: 4/29/97

The FINANCE Committee considered:

HB 250

HOUSE BILL NO. 250

NORTH SLOPE GAS COMM. TEAM

“An Act establishing a North Slope Gas Commercialization Team to develop recommendations regarding a North Slope gas project; and providing for an effective date.”

recommends it be replaced with the following committee substitute CS HB 250 (0:9) [the same title
[] a new title

[] additional referral to _____ Committee
[] attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) _____
 [] fiscal note(s) _____ [] fiscal note(s) _____
 [] zero fiscal note(s) HFC [] zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Cene Thernault</i>			X	
<i>Terry Martin</i>				✓
<i>De Kohring</i>	X			
<i>J. Davis</i>				X
<i>Grussendorf</i>				X
<i>Mullen</i>	X			
<i>Keily</i>	✓		X	
<i>G. Davis</i>			X	

X fiscal note
fiscal note
needed

CHAIR'S SIGNATURE *Cene Thernault*

Revision Date: _____ Dept. Affected: Revenue
 Title: North Slope Gas Commercialization BRU: Administration and Support
 Component: Commissioner's Office
 Sponsor: Governor
 Requestor: RLS COMPONENT SERIAL NO. 123

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	50.0 **					
TRAVEL	38.0 **					
CONTRACTUAL	150.0 **					
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	238.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()						
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	238.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	238.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY97) cost \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

In continuing the efforts to develop the North Slope Gas Project, funding is needed to accomplish the following:

1. staff work to complete the research and analysis to develop specific fiscal terms for proposed legislation and contract terms and staff work to facilitate commercialization team meetings and travel;
2. consultant to advise state on fiscal system;
3. coordination of the state's efforts with leaseholders and potential project sponsors;
4. perform a socioeconomic study of the effects the project would have on the state.

** Estimates may require further refinements.

Prepared by: Tamar diFranco
 Division: Commissioner's Office
 Approved by Commissioner: Wilson L. Condon
 Agency: Revenue

Phone: 465-2300

Date: April 11, 1997

Date: April 11 1997

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FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. CSHB 250 (O&G)

Title: North Slope Gas Commercialization
Sponsor: Governor
Requestor: _____

Dept. Affected Revenue
BRU: Administration and Support
Components: Commissioner's Office
Serial # 123

EXPENDITURES/REVENUES: (THOUSANDS OF DOLLARS)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants, Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL	0.0	0.0	0.0	0.0	0.0	0.0
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REVENUE	0.0	0.0	0.0	0.0	0.0	0.0
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FUNDING: (THOUSANDS OF DOLLARS)

General Fund	0.0	0.0	0.0	0.0	0.0	0.0
Federal Fund	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS :

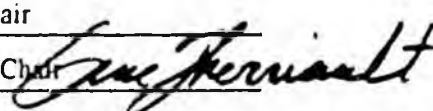
Full-Time	0	0	0	0	0	0
Part-Time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (ATTACH A SEPARATE PAGE IF NECESSARY)

see attached analysis

Prepared by: House Finance Committee
Rep. Mark Hanley, Co-Chair
Rep. Gene Therriault, Co-Chair

Date: 4/29/97
Phone: 465-4939
Phone: 465-4797



TONY KNOWLES
GOVERNOR

HB 250
P O Box 110001
Juneau, Alaska 99811-0001
(907) 465-3500
Fax (907) 465-3532

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

April 11, 1997

The Honorable Gail Phillips
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker *Gail* Phillips:

Developing our enormous North Slope natural gas resources is a significant opportunity for creating Alaska jobs and providing a secure economic base upon which to build Alaska's future. This bill I transmit today establishes the North Slope Gas Commercialization Team to identify and develop steps the state can take, in cooperation with the North Slope leaseholders and other potential sponsors, to make a North Slope gas project a reality.

To date, the development of North Slope natural gas resources has not been economically feasible or competitive with alternative sources of energy. North Slope leaseholders estimate a \$15 billion cost for the facilities to develop these resources, including a gas conditioning plant, an 800-mile pipeline, a liquefaction plant to convert natural gas into liquefied natural gas (LNG), LNG storage facilities, and LNG tankers.

There is relatively little the state can do to reduce the capital costs of a North Slope gas project. There are steps the state can take to improve a project's economic feasibility and competitiveness. The state has received guidance from a report commissioned by the Department of Revenue. This report reviews Alaska's tax and royalty structure, evaluates the competitiveness of the project internationally, and recommends in general terms possible modifications to the state's tax and royalty structure to improve the economic feasibility and competitiveness of a project.

The Administration also has received guidance from the legislature. In House Concurrent Resolution 1, the legislature requested the governor and North Slope gas resource leaseholders develop a contract to execute with sponsors of an LNG project, as well as appropriate enabling legislation. The contract and legislation would establish the nature, degree, and duration of the fiscal terms that would best facilitate a project.

The Honorable Gail Phillips

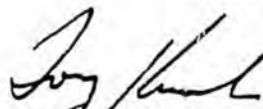
April 11, 1997

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This bill creates the administrative structure necessary to evaluate recommended changes to the tax and royalty system and carry out the wishes of the legislature as expressed in HCR 1. The North Slope Gas Commercialization Team would determine how to improve the economic feasibility and competitiveness of a North Slope gas project while protecting the public interest. The team also could help develop legislation to enable the state to enter into the contract, provide a stable fiscal and regulatory structure for the project, aid permitting, ensure a maximum number of Alaska residents and Alaska businesses are hired to construct and operate the project, protect the environment, health and safety of workers and the public, and provide natural gas to Alaska communities.

This bill is an important step forward in developing Alaska's North Slope natural gas resources. I urge your prompt consideration and passage of this bill.

Sincerely,



Tony Knowles
Governor

.115-1

2:00

HOUSE FINANCE COMMITTEE

MEETING OF 4/29/97

MEMBER	PRESENT	ABSENT
MOSES	✓	
DAVIS, GARY	✓	
KELLY	✓	
FOSTER	✓	
THERRIAULT	✓	
HANELY		
MULDER	✓	
MARTIN	✓	
KOHRING	✓	
DAVIES, JOHN	✓	
GRUSSENDORF	✓	

Hodgins

Cordon

Fuchs
Erickson

TELECONF

(1)

Tanna di Franco

Rev - Spec Ans

Maryn Wilson STAFF

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

April 18, 1997

SUBJECT: Draft CSHB 250 (): confidential records considerations (Work Order No. 20-GH0110\B)

TO: Representative Mark Hodgins
ATTN: Pat Carter

FROM: Jack Chenoweth
Legislative Counsel

If there were no bill or no provision in this bill addressing the disclosure of otherwise confidential information, then it appears to me that --

-- under AS 38.05.036(b), information relating to royalty and net profits paid by lessees, that may be examined or audited by the Department of Revenue, thereafter is to be held confidential by the Department of Revenue "to the extent required under oil and gas agreements, contracts, or leases, or by [AS 38.05] or AS 43.05.230;

-- AS 09.25.100 speaks of the confidentiality of certain information in the possession of the Department of Revenue and the disclosure of that information when production is required "in an official investigation", though "official investigation" is not defined;

-- the Department of Law has concluded that AS 43.05.230, in conjunction with AS 09.25.100, permits disclosure of confidential tax records--presumably this extends to records relating to royalty and net profit payments, too--to members of the Legislature (Opinion of the Attorney General, January 12, 1989, copy enclosed);

-- there seems to be at least a tacit understanding that confidential information may be disclosed to legislators under certain circumstances if only because AS 24.60.060 makes the unauthorized disclosure of information made confidential by law and obtained by a legislator or legislative employee in the course of official duties both an ethics violation and the subject of possible criminal prosecution (AS 11.56.860, misuse of confidential information punishable as a class A misdemeanor).

Representative Mark Hodgins

April 18, 1997

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All of this does, of course, concern itself with information made confidential by law-- particularly information relating to taxes and to royalty and net profits payments. Our earlier phone discussion, and sec. 3(c) of the bill draft, also touched on the degree of protection offered for "proprietary information." "Proprietary information" is not a term that appears in the Public Records provisions, AS 09.25.100 - 09.25.220, nor in the Alaska Land Act, AS 38.05, nor in the tax title, AS 43. So it looks to me that proprietary information would not enjoy treatment on the same basis as information obtained in the course of administration of tax laws and of royalty and net profit payment arrangements on leases. Also, please note that there is no fixed definition of "proprietary information" in either the Alaska Statutes or in regulations implementing and interpreting existing statutes, and without a certain definition there may be disagreement as whether particular information is or is not truly "proprietary".

JBC:glc
97-456.glc

Enclosure

ALASKA STATE LEGISLATURE

SPEAKER OF THE HOUSE GAIL PHILLIPS

RECEIVED
APR 23 1997 - 1:10 PM

April 22, 1997

The Honorable Tony Knowles
Governor, State of Alaska
PO Box 110001
Juneau, Alaska 99811-0001

RE: North Slope Gas Commercialization Team

Dear Governor Knowles:

Thank you for your continued support and work on the trans-Alaska Gas Line. This project will provide thousands of jobs for Alaskans and help propel Alaska into the 21st century. However, the introduction of HB 250 has raised some concerns within the Legislature.

One of the main concerns is that the Commercialization Team does not have a defined goal to work toward. The team is tasked with attempting to identify terms within the state fiscal structure to enhance the economics of the project in order to make it economically viable. I would suggest that the bill should define a target for economic feasibility. This will give the team a goal that should enhance the likelihood of success.

Potential project sponsors, who have voluntarily declared an interest and who continue to show interest in the project, will be critical to the success of the Commercialization Team. The project sponsors will likely have differing goals and I believe that the process would be assisted if the potential sponsors began the formation of a sponsor structure with which the Commercialization Team could begin negotiations. To attempt to negotiate with each individual potential sponsor would be unnecessarily cumbersome and almost certainly doom the Team to failure.

I am also concerned with some of the language contained in Section 2 (e). Specifically, the deadline of February 13, and the language that gives the Commercialization Team the alternative to not have their work completed by the proposed deadline - "...except if the North slope Gas Commercialization Team determines that additional work needs to be done to develop a comprehensive set of recommendations, the team shall, by February 13, 1998, provide to the Governor and the legislature an interim report on the work that the team has completed, the work remaining to be done, the reasons for the additional time

needed, and the anticipated date on which the final report will be provided to the Governor and notification of the report's availability will be provided to the Legislature." This language will likely guarantee that the Commercialization Team will miss the deadline and I strongly suggest that it be removed from the bill. As we both know, deadlines can be extremely effective as a motivational tool. I would also suggest the date be amended to the first day of the legislative session, January 12, 1998.

There is also a great deal of concern over the fiscal note. The current fiscal note appears to be unnecessarily high since all of the team members already work for the state.

In closing, I respectfully request that you address the following concerns as soon as possible.

- What will the Commercialization Team use as a target to determine commercial viability?
- Who will the Commercialization Team negotiate fiscal terms with?
- A firm deadline of January 12, 1998 without the extension clause.
- Explanation of the large fiscal note.

Given the lateness in the legislative session I respectfully ask that you respond to this letter on or before the end of the day Thursday, April 24, 1997. Thank you for your consideration and I await your timely response.

Sincerely,



Representative Gail Phillips
Speaker of the House

cc: Representative Ramona Barnes, Chair, House World Trade Committee
Representative Mark Hodgins, Chair, House Oil & Gas Committee
Representative Scott Ogan, Co-Chair, House Resources Committee
Representative Bill Hudson, Co-Chair, House Resources Committee
Representative Mark Hanley, Co-Chair, House Finance Committee
Representative Gene Therriault, Co-Chair, House Finance Committee
Senator Rick Halford, Chair, Senate Resources Committee
Senator Drue Pearce, Co-Chair, Senate Finance Committee
Senator Burt Sharp, Co-Chair, Senate Finance Committee

TONY KNOWLES
GOVERNOR



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OFFICE OF THE GOVERNOR
JUNEAU

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Juneau, Alaska 99811-0001
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April 28, 1997

Ans'd.....

The Honorable Gail Phillips
Speaker of the House
Alaska State Legislature
State Capitol, Room 208
Juneau, AK 99801

Gail
Dear Speaker Phillips:

Re: HB250, North Slope Gas Commercialization Team

Thank you for your interest and concerns raised in your April 22nd letter regarding HB 250, the bill I introduced on the proposed North Slope gas project. I consider this legislation to be of high priority this session because of its great potential for advancing one of the most exciting prospects for Alaskan jobs and future state revenues.

First, you are concerned the North Slope Gas Commercialization Team does not have a clearly identified goal to work toward. As you well know, economic viability is a constantly moving target. In today's circumstances, a project might be viable, while in tomorrow's circumstances, it might not be. We are trying to develop a state fiscal system which, in combination with improvements in other factors such as capitol costs and federal fiscal changes, would result in a combined project risk and rate of return comparable to the most attractive worldwide greenfield LNG projects.

Second, you are concerned that, since there is no existing project sponsor structure for the project, the Commercialization Team will not have a distinct group of people with whom to negotiate. I agree that the commercial entities interested in the Alaska project will need to organize themselves to facilitate negotiations. However, I do not believe it is necessary or advisable for the State to participate in that process. Representatives from the Far East markets have consistently and staunchly suggested to us the government should not be involved in dictating any of the commercial aspects of the project.

The Honorable Gail Phillips

April 28, 1997

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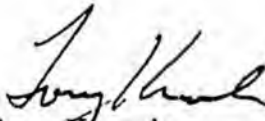
I suggest the Commercialization Team negotiate with any parties that come forward and request to be involved in the process. Clearly, gas owners and non-gas owners will have different interests in different segments of the process. I hope the Team will be able to include the appropriate interested parties at the appropriate times.

Third, you are concerned with the February 13, 1998 deadline, and the accompanying release clause which permits the Commercialization Team to submit its final report later than that date. I agree we can't let too much time pass before providing a final package of recommendations to the legislature. I am concerned we are asking the Commercialization Team to do a tremendous amount of work between now and next year. However, I support your suggestion to move the date the Commercialization Team reports to me and the Alaska Legislature to January 12, and removing the release clause.

Finally, you expressed concern about the size of the fiscal note accompanying the bill. The people who have been spending the most time on this effort for my Administration, Wil Condon, John Shively, and Bruce Botelho, have been doing so in addition to other large responsibilities. For us to do a responsible job in protecting the public interest in our negotiations with potential project sponsors, our staff will need additional resources. The fiscal note includes a small amount for staff support and travel, along with money for a consultant to address the socioeconomic impacts of the project on our state, and a consultant to continue to advise the state on important fiscal matters. I believe, in fact, this is the bare minimum we can get by with and still do a responsible job. We will supply the appropriate committees with additional budget details in support of the fiscal note.

I hope this response adequately addresses your concerns and that you will work to secure passage of this important legislation this session.

Sincerely,


Tony Knowles
Governor

Smith's use of documents that he obtained when he served an expert witness for the state in the North Slope royalty case. That case was settled in 1995, but the documents remain covered by a protective order [see **AG puts oil and gas commission on short leash**, *ALASKA BUDGET REPORT*, November 18, 1996].

In rebutting arguments against compulsory unitization of all Prudhoe interests, Smith acknowledged that the cost of imposing full unitization would be considerable, both for the AOGCC and the producers. He noted, however, that the costs of constant conflict over the unit developments have also been costly.

The economist has been a long-standing advocate of full integration of economic interests in petroleum reservoirs. AOGCC Chairman David Johnston said that Smith, who was recommended by the Department of Law, prepared the report under a \$26,000 contract with the commission.

Knowles bill cuts public access to records & meetings

Gov. Tony Knowles has introduced legislation that would restrict public access to state records and documents related to development and commercialization of North Slope gas resources.

The measure, introduced April 14, creates a North Slope gas commercialization team composed of state officials; the group is defined as "not a governmental body or public entity for purposes of [the state Open Meetings Act]." The group would, however, be permitted to meet privately with invited oil company officials or others not affiliated with state government.

Documents received or prepared by the team may be kept secret if officials say they contain or relate to sensitive, proprietary, or privileged information. The commercialization team would be dissolved after it submits its final report, but the documents classified as confidential would remain so indefinitely.

The legislation, SB 174 and companion bill HB 250, was described in the governor's April 11 press release as being necessary to "identify and develop steps the state can take, in cooperation with the North Slope leaseholders, potential project sponsors, and the federal and local governments to make a North Slope gas project a reality." [See **Knowles to present gasoline incentive bills this session**, *ALASKA BUDGET REPORT*, November 18, 1996.]

Apart from the secrecy provisions, the bill does not appear to do anything that Knowles doesn't have the power to do on his own, without legislation. An April 12 story in the *Anchorage News* quoted Rep. Ramona Barnes as saying Knowles can set up such a team without help from lawmakers:

"He doesn't need a piece of legislation to set up this committee," Barnes said. "I see it as a way for the oil companies to drag their feet some more." [See **Barnes scolds gas pipeline "foot-draggers"**, *ALASKA BUDGET REPORT*, November 18, 1996, and **Barnes prods Exxon on gas project**, January 29, 1997.]

"For this governor, who's always talking about public process, it's kind of interesting that he would stick that in there," House Speaker Gail Phillips said regarding the Open Meetings Act and Public Meetings Act amendments, also as quoted in the *News*.

The team established by the bill is to deliver a "final" report to the governor by February 13, 1997, but could extend that date indefinitely by submitting an interim report with their reasons for requesting an extension. The report is to offer terms for a contract between the state and gas line sponsors, including changes to the state tax and royalty structure needed to improve the economic feasibility and competitiveness of the project, and other provisions needed to make the contract binding on the state [see **DOR offers gas consultant study, will report on fiscal changes in April**, *ALASKA BUDGET REPORT*, March 19].

Provisions of the governor's bill, except for those allowing the state to keep records of the group secret, would be repealed when the final report is submitted.