

**HB**

**393**

**HFIN**

**FILE**

## Testimony for House Finance Committee - 6<sup>th</sup> April, 1998

For the record my name is David Brooks. I hold the post of Manager Alaska Gas in BP Exploration Alaska Incorporated and I am responsible for BP's initiatives to commercialize the gas reserves on the North Slope of Alaska.

Mr. Chairman I should like to thank you for this opportunity to testify before this committee and to explain BP's views on this Bill.

Today in Prudhoe Bay we have proven approximately 25 trillion cubic feet of gas, there are some 5 trillion cubic feet of gas in Point Thompson and the US geological survey suggests that there could be in excess of another 100 trillion cubic feet yet to be found on the North Slope.

That is a lot of gas, another oil field at least the size of Prudhoe Bay - and a large amount of value or revenue for the resource owners and the State and people of Alaska if we can find economic ways to get that gas to market, in some form or other. And I would like to assure the members of this committee that BP is taking the issue of the commercialization of those gas resources very seriously and continues to dedicate resources to exploring routes to commercialize it.

Over the past year or so we have had the pleasure and honor of working with the legislature, the state administration, other gas owners and interested parties on the commercialization of the North Slope gas. The Gas Commercialization Report published in January of this year was an outcome of that work and we consider it to be a very sound and professional review of the challenges surrounding the commercialization of the gas. This Bill is the next logical step following the recommendations of the Commercialization Report.

Commissioner Condon in his testimony has described very clearly and expertly how the Bill would be implemented. I therefore do not intend to discuss that. Instead I would like to highlight two issues that BP believes ought to be considered by this Committee in its review of the Bill.

BP believes that this piece of legislation is important for the State. It creates - or at least in our view it ought to create - options for the State to unlock the value in its vast resources of stranded gas.

However, as it is currently written the Bill is very much an LNG and gas pipeline Bill only, and that is certainly one important option. But there are other options.

A key option today is gas to liquids technology.

Although the technology is currently uneconomic many companies including BP have extensive work programs in progress to drive down the costs of the process and to make it competitive.

The gas to liquids technology would convert the gas on the North Slope to a liquid hydrocarbon such as diesel. That diesel could be transported in the TAPS oil pipeline and sold out of Valdez in the normal way. Although this would not require the development of a gas line it would have other significant benefits.

- First, a gas to liquids plant on the North Slope would increase the flow of oil through the TAPS line, thereby helping to keep down transportation costs. This could help facilitate the production of crude oil from some of the smaller accumulations on the North Slope.
- Secondly, enhanced flows down TAPS would prolong the useful life of TAPS and ensure that refineries and communities along the pipeline continue to have access to energy derived from North Slope reserves.

And please do not forget, the options of LNG and Gas to liquids are not mutually exclusive. The vast quantities of gas already proven on the North Slope means that we could do both an LNG project and a gas to liquids project.

Mr. Chairman, members of the Committee, we believe that the scope of the Bill should be widened to include **all** options for gas commercialization, in particular the options of LNG and gas to liquids technology. We would encourage you to make the appropriate amendments to the Bill to make it clear that gas to liquids comes within the scope of stranded gas projects that the Commissioner may consider.

Our second area of concern is the sunset clause on page 10 of the Bill.

That clause limits the applicability of the Bill to projects making an application before the end of June, 2001. And by establishing such a limit it closes off options for the future.

Although BP is working hard, we cannot control the development of technology nor of markets for the gas. We cannot say when additional Stranded Gas fields might be found. But by keeping a cut off date, any cut off date, in the Bill we believe that the State is potentially reducing its options and giving a negative message to the potential developers of technology and stranded gas resources.

We would therefore recommend to this Committee that the sunset clause be deleted.

Mr. Chairman, members of the committee, BP views this legislation as enabling legislation, not committing the State to anything, not giving away.

We believe that it should provide a positive signal to industry and to developers of stranded gas that the State is open for business, that the State is prepared to discuss any fiscal impediments that there may be in the way of **any** stranded gas development project and at **any** time.

Mr. Chairman and members of the Committee,

This Bill is a piece of legislation that ought to create options for the State to generate value from the enormous gas resources on the North Slope of Alaska.

We urge you to clarify that it is applicable both to LNG and gas to liquids and to delete the sunset clause.

Mr. Chairman, members of the committee with those reservation and comments please be assured that BP supports this legislation.

Thank you for your attention. I would be happy to answer any questions that you might have.

ARCO Alaska Testimony  
Michael Hurley  
House Finance Committee  
Monday, April 6, 1998

Mr. Chairman, for the record, my name is Michael Hurley. I am senior tax advisor for ARCO Alaska in Anchorage. I am here today to testify in support of HB-393, The Alaska Stranded Gas Development Act.

As many of you know, ARCO has been aggressively pursuing the development of North Slope gas resources for some time now. As one of the major gas interest owners on the slope, these resources represent one of ARCO's most significant undeveloped assets; and finding a way to commercialize them is an important priority.

Our most encouraging work to-date has been in the development of plans to commercialize the gas as LNG sold into Far East markets. While this project is not yet economically viable, ARCO has been working on four key areas which, if successfully addressed, could lead to an economically viable project; and those are:

- 1) Reduction in the cost of the project,
- 2) Development of a viable project structure,
- 3) Development of a viable market, and,
- 4) Pursuit of federal and state fiscal & commercial regulatory matters

ARCO believes HB-393 represents an important, indeed a vital, component of our plan to develop a viable economic project.

While we have been pursuing our plan for an LNG project to commercialize these gas resources, we also recognize that alternative plans to commercialize the gas have been and continue to be studied. Over the last twenty years several serious efforts were initiated to move the gas in conventional gas pipelines through Canada to lower-48 markets. Unfortunately, thus far, none of those efforts achieved economic viability. Other, more technologically challenging, alternatives for commercializing the gas continue to be researched, including gas to liquids technology, in the drive to maximize the value of the resource. We believe that maximizing the value of the resource, to the industry for its shareholders, and to the state for its citizens, is the ultimate goal in commercializing these gas resources. HB-393 is an important piece of legislation, and should be crafted, in such a way, so as to broaden rather than limit the opportunities and options available to commercialize these resources.

HB-393 is important because it puts in place a process and structure within which sponsors or sponsor groups may work with the administration to develop alternative fiscal regimes more appropriate to the kind and structure of project. These alternative fiscal regimes would then be open to public comment, and would ultimately return to the legislature, in the form of contracts, for your evaluation and approval.

In summary, we support HB-393, we believe it provides an important framework which is necessary for us to move forward in our efforts to commercialize these gas resources.

I would like to thank you Mr. Chairman, for the opportunity to testify, and would be happy to answer any questions the committee might have.

# CSHB 393 Flow Chart

*The Alaska Stranded Gas  
Development Act*

Project Sponsors Apply

Project Sponsors  
Requirements

## Defined terms

### What is STRANDED GAS?

Gas that is uneconomic or uncompetitive to develop.

### What is a QUALIFIED PROJECT?

A project that would develop and market 500 bcf of STRANDED GAS over a twenty year period and make gas available to local communities.

### What does it take to be a QUALIFIED SPONSOR?

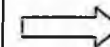
- An intent to own an equity interest in the project and
1. Own some or all of the stranded gas; or
  2. Have a right to purchase some of the stranded gas; or
  3. Have the major permits necessary to construct the project; or
  4. Have the financial strength to construct the project.

A QUALIFIED SPONSOR may apply to the Commissioner of Revenue for a contract to make payments in lieu of certain state and local taxes for a QUALIFIED PROJECT to develop STRANDED GAS



Proposed project sponsors applying for a contract must establish:

1. That gas is stranded gas.
2. That they are Qualified Sponsors.
3. That the proposed project is a Qualified Project.
4. That there is a Project Plan that reflects a proposal for diligent development of the gas, and includes reasonable provisions for providing gas to local communities.



**Commissioners of Revenue and  
Natural Resources Review  
Application**

**Parties May Proceed to Contract  
Negotiation Upon Commissioner  
of Revenue's Approval of the  
Application for a Contract**

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graph LR; A[Commissioner of Revenue must answer the following questions:] --> B[Commissioner of Natural Resources and Commissioner of Revenue must answer the following questions:]; B --> C[If the answer is "yes" to all five questions pertaining to the review of the application, then the Commissioner of Revenue may decide to proceed to contract negotiations to provide for periodic payments in lieu of taxes.];
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**Commissioner of Revenue must answer the following questions:**

1. Is the gas stranded?
2. Do the proposers meet the standards for Qualified Sponsors?
3. Is the proposed project a Qualified Project?

**Commissioner of Natural Resources and Commissioner of Revenue must answer the following questions:**

1. Does the Project Plan provide for diligent development?
2. Is there a satisfactory plan for providing gas to local communities?

If the answer is "yes" to all five questions pertaining to the review of the application, then the Commissioner of Revenue may decide to proceed to contract negotiations to provide for periodic payments in lieu of taxes.

**The Commissioner of Revenue and the Commissioner of Natural Resources Negotiate a Contract with Sponsors that Provides for Payments in Lieu of Certain Taxes, Alaska Hire, Certain Royalty Arrangements, Gas for Communities and Revenue Sharing with Communities**

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The Commissioner of Revenue may, with respect to contract fiscal terms, develop payments in lieu of certain state or municipal oil and gas, income, property, or other taxes. Fiscal terms shall:

1. Improve the competitiveness of the Alaska project
2. Function effectively under a wide range of economic and market conditions
3. Link the State's share to project profitability (make tax "progressive")
4. Make State's share "backend loaded"-lower tax rates in earlier years, higher rates in later years
5. Allow Sponsor a share of the project's return commensurate with the Sponsor's assumed risk
6. Have the State's share increase under favorable price and cost conditions
7. Be clear and unambiguous
8. Base payment terms on actual costs if possible, or formulae

In addition to fiscal terms, the contract shall also:

1. Provide for Alaska Hire within the limits of Constitutional restrictions
2. Provide gas for Alaska communities
3. Provide for a fair and reasonable sharing of revenue with affected communities. Development of municipal revenue sharing terms shall be based on the following:
  - i. The size of the tax base that would be exempted
  - ii. The anticipated economic and social burdens imposed on a municipality from a project
  - iii. The need for stable and predictable payments
  - iv. The eight fiscal principles outlined above.

With the concurrence of the Commissioner of Revenue, the Commissioner of Natural Resources may negotiate terms to include in the contract that:

- A. Provide for a method for valuing the gas for royalty purposes; and
- B. Modify the rights of the State to take royalty in-kind rather than in-value.



The Commissioner of Revenue notifies the mayors of the affected communities and they establish the Municipal Advisory Group. One member from each affected community is appointed to serve on the group. The Commissioner of Revenue must:

1. Consult with the Municipal Advisory Group on the development of municipal revenue sharing terms
2. Consult with the Municipal Advisory Group about issues affecting the communities during negotiations.

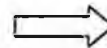
**The Commissioner of Revenue  
Completes Contract and Makes  
Preliminary Findings**

**Public and Legislature  
Review Proposed  
Contract**

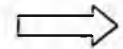
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Commissioner of Revenue completes contract and makes preliminary findings and a determination that the contract is in the long term fiscal interests of the State. With an affirmative finding the Commissioner shall:

1. Submit the proposed contract to the Governor.
2. Make the findings, contracts and supporting data available for public and legislative review



A period of at least 30 days begins for the public and the legislature to review and comment upon the proposed contract and findings.



**The Commissioner of Revenue  
Reviews the Contract in Light of  
Public Comment and May Seek to  
Amend the Contract**

**The Legislature Considers  
Legislation to Authorize the  
Executive Branch to Execute  
the Contract**

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The Commissioner of Revenue prepares a summary of public comments. After consultation with the Commissioner of Natural Resources and the Municipal Advisory Group, the Commissioner of Revenue:

1. May develop proposed amendments to the contract and attempt to secure Sponsor agreement to the proposed amendments
2. Make final findings and a determination that the contract is in the long term fiscal interest of the State.

The Commissioner submits the proposed contract and final findings to the Governor. The Governor submits the findings and proposed contract together with a bill requesting authority to execute the contract to the legislature.

**The Executive Branch and the  
Sponsors Execute the Contract**

If the legislature grants the executive branch the authority to execute the contract, then the Governor must do so within 60 days of the effective date of the authorizing legislation.

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 3, 1998

FURTHER REFERRALS:

Date of Committee Action: 4/6/98

The FINANCE Committee considered:

HB 393

HOUSE BILL NO. 393

DEVELOP STRANDED GAS RESOURCES

"An Act relating to contracts with the state establishing payments in lieu of other taxes by a qualified sponsor or qualified sponsor group for projects to develop stranded gas resources in the state; providing for the inclusion in such contracts of terms making certain adjustments regarding royalty value and the timing and notice of the state's right to take royalty in kind or in value from such projects; relating to the effect of such contracts on municipal taxation; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 393 (RES)  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) \_\_\_\_\_ 2 fiscal note(s) DNR 2/11/98  
DOR 2/11/98

zero fiscal note(s) \_\_\_\_\_  zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Craig Theriault</i>			X	
<i>Larry Martin</i>			X	
<i>Bob Kelly</i>			✓	
<i>Bob Williams</i>	X			
<i>Chad Hill</i>	✓			
<i>Jim Johnson</i>	X			
<i>[Signature]</i>	X			
<i>Ben [Signature]</i>			X	
<i>Mark [Signature]</i>			X	

CHAIR'S SIGNATURE *Craig Theriault* *Mark Kelly*

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: N. Slope Gas Line BRU: Administration and Support  
 Component: Commissioner's Office  
 Sponsor: Rules  
 Requestor: Governor COMPONENT SERIAL NO. 123

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	F '03	FY 04
PERSONAL SERVICES	81.6	82.7	84.0	85.3	86.6	87.9
TRAVEL	30.0	30.0	30.0	30.0	30.0	30.0
CONTRACTUAL	375.0					
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	5.0	5.0	5.0	5.0	5.0	5.0
<b>TOTAL OPERATING</b>	<b>491.6</b>	<b>117.7</b>	<b>119.0</b>	<b>120.3</b>	<b>121.6</b>	<b>122.9</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	*** 191.6	117.7	119.0	120.3	121.6	122.9
1001 CBRF						
1048 University of AK receipts						
Other	300.0					
<b>TOTAL</b>	<b>491.6</b>	<b>117.7</b>	<b>119.0</b>	<b>120.3</b>	<b>121.6</b>	<b>122.9</b>

Estimate of any current year cost \$ \_\_\_\_\_

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

\*\*\* The legislation as currently drafted allows for the \$300,000 in contractual costs to be recovered from future applicants. This bill could be modified to provide that all costs would be borne by an applicant.

See Attached

Prepared by: Mary Marshburn, Roger Marks  
 Division: Office of the Commissioner  
 Approved by Commissioner: Wilson L. Condon  
 Agency: Revenue

Phone: 343-9242  
 Date: February 9, 1998  
 Date: February 9, 1998

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This bill would authorize the executive branch to negotiate a contract with sponsors of proposed projects to develop stranded gas in Alaska. The payments required by the contract would replace some or all of the state and local taxes that would otherwise pertain to major economic activity engendered by the project.

A negotiated contract would make it possible to tailor the fiscal arrangements to meet the needs of the proposed project while, at the same time, ensuring the public benefits from the project. A set of arrangements providing for contractual payments in lieu of taxes is likely to provide fiscal terms that potential investors will believe are likely to remain permanently in place over the life of the project.

Given the extended time frame to develop and market the large volumes of stranded gas, revenues expected as a result of the bill are outside the time horizon of this fiscal note.

The fiscal note breakdown is as follows:

Personal Services:                   \$81,600.00

Salary and benefits to fund one DOR person devoted to the gas project.

Travel:                               \$30,000.00

The state must continue to inform Alaska communities of and involve them in discussion of contract and project issues. Some of the issues that affect them are community impacts induced by project development, payments to municipalities in lieu of taxes, availability of gas to communities and Alaska hire and contracting. In addition, the state will propose and advocate changes to the federal tax structure to improve project economics and evaluate federal regulatory changes to allow for regulatory certainty. This line item will fund travel within Alaska, to consultants and to Washington, D. C. for these purposes.

Contractual:                         \$375,000.00

\$75,000.00 to fund a socioeconomic study on the impacts induced on the local communities by project development. This study is a necessary step in constructing the foundation for discussion with municipalities and negotiations with project sponsors about payments to municipalities in lieu of taxes for the costs of and impacts from additional services and construction resulting from project development.

N. Slope Gas Line  
Bill Analysis  
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\$300,000 to fund contractual services and advice from experts in fiscal, regulatory, contract negotiation, legal, and financial areas. These technical and evaluative services would be necessary to the tax and regulatory work planned for the federal level; they would be required to assist the state in substantive and complex contract development and negotiation, potentially with multiple sponsors. The state does not have all of this expertise in-house. \$75,000 of these costs will be incurred in preparation for the application process regardless of whether there are applicants.

As per the proposed bill, contract applications may be made until June 30, 2004. Expenditures for contractual services, therefore, may be necessary any time between July 1, 1998 and June 30, 2004. Because there is no way of knowing now specifically when expenditures would be required, it may be beneficial to treat this \$300,000 as a continuing appropriation

The proposed legislation allows reimbursement of the state by the applicant for the expenses of an independent contractor used to assist in the evaluation of an application. We estimate that \$100,000 of the \$300,000 expenditure would be from this non-general fund source, leaving \$200,000 from the general fund.

Miscellaneous: \$5000.00

To fund supplies, LNG conference participation, purchase of technical reports, etc.

Add a sentence to the existing AS.43.52.500, line 8, p24 stating:

"If the portion of periodic payments are less in the aggregate than the amount the municipality would receive from taxes imposed under 29.45.810, 29.46.010(b) or AS 43.82.200 and AS 43.82.210 during the period of exemption, the provision of the contract relating to the exemption must be approved by the Assembly of the revenue affected municipality before it becomes applicable to that municipality.

**HOUSE FINANCE COMMITTEE  
EXXON TESTIMONY  
STRANDED GAS ACT**

I am Beverly Mentzer, Exxon Company U.S.A.'s Alaska Gas Commercialization Manager. I appreciate the opportunity to address the House Finance Committee regarding House Bill 393 as you evaluate and progress the bill. I'd like to share our views regarding how this bill will facilitate the commercialization of Alaska's gas and highlight key areas of interest during the prior hearings.

I can assure you that Exxon continues to have a keen interest in commercializing Alaska's North Slope gas, which represents over one-half of Exxon U.S.A.'s gas resources. Since discovery of Prudhoe Bay, Exxon has devoted a significant amount of our technical and financial resources searching for a way to commercialize the gas. We have spent in excess of \$100M on these efforts.

This work has demonstrated that it will take a combination of fiscal and regulatory modifications and certainty, favorable market terms and significant cost reductions for a North Slope gas project to be economic.

We are not alone in this belief. The State's fiscal consultant, Pedro Van Meurs said that, "In order to make the Alaska North Slope LNG project economic, three objectives have to be achieved:

1. The costs of the project have to be reduced substantially.

2. The profitability of the project has to be improved through a fiscal package in which federal, state and local governments cooperate, and
3. The risks of the project have to be considerably reduced."

The risks he addressed include such things as gas price, cost overruns, fiscal stability and market access.

To help reduce fiscal risk, this bill provides reasonable guidelines and boundaries for development of a fiscal contract. It includes the opportunity for input from the legislature, local municipalities and the public during the contract development stage. It also appropriately requires legislative review and authorization of any fiscal contract.

A key objective of the bill is to keep options open for the state of Alaska to maximize the value of its gas resources. It does a good job in meeting this goal, but could be even better. Let me explain what I mean by looking at five key questions – Where? Who? What? When? And How?

- Regarding where the gas is located, the bill is not field-specific, but keeps options open by defining criteria for a qualified project.
- Regarding who can develop a project, there are only criteria to judge the intent and financial strength of potential qualified sponsors.
- Regarding what the fiscal terms should be, there are only guiding principles for future negotiations, and options for taxes to be considered.
- Regarding when this process may be initiated, there are only three years to apply for a fiscal contract, until June 30, 2001. If the Committee judges the

principles and processes outlined in the bill to be sound, three years is a short timeframe to keep these options open for a project of this magnitude.

- Regarding how the gas may be developed, the bill originally kept options open for both proven technology, such as LNG, and new technology, such as gas-to-liquids conversion. Following recent removal of the gas-to-liquids language, it is debatable whether Alaska wants to keep the door open today to encourage the evaluation of new technology which may expedite commercialization of Alaska's gas.

Because it has been a topic of extensive debate, I'd like to explain further the options and issues surrounding gas-to-liquids conversion. Prior to doing this, however, I want to emphasize that Exxon has a work program planned for LNG, but we also want to perform some GTL studies. Since no option is currently economic, we will work on every method that has the potential to commercialize Alaska's gas.

The most frequently asked question is whether gas-to-liquids conversion is really an option worthy of Alaska's serious consideration today. The answer is "yes." From Exxon's perspective, we have spent over \$300M on technology development and acquired 1500 patents worldwide. We have completed a feasibility study with the Qatar General Petroleum Company and are currently in negotiations with them on commercial terms for a possible project. The issue is not whether the technology is ready -- from our perspective it is --, but the issue is whether or not the technology is economic. The site-specific economics will be determined by such factors as product price,

*for file*

construction, operating and transportation cost and fiscal terms. A DOE report, which compared the economics of similar size LNG and GTL projects for Alaska, concluded that "both options are economically promising and warrant consideration in industry and government decision making." The DOE also predicted similar state revenues for both options.

Another question is how a bill designed with LNG in mind could be appropriate for another technology such as GTL. Because current options are high cost, *and high-risk* uneconomic and subject to the same fiscal regime; many of the LNG learnings apply, and enabling legislation which is general in nature is indeed appropriate.

In summary, the passage of House Bill 393 is a necessary step in the process of developing appropriate fiscal terms that could be specified for the life of the project. Such a fiscal contract could increase the competitiveness of an Alaska gas project, while meeting the long-term fiscal interests of the state.

I would be glad to respond to any questions now.

Alaska produce taxable income, taxed by the State of Alaska.

Last year, Westours paid approximately \$3.5 million dollars to the State of Alaska. She referred to Attachment 6, which outlines the number of people employed in Alaska, the amount of money spent on marketing Alaska, and the contributions to the Alaska economy.

*HB 12  
House  
Personal  
Minutes*

Representative Ulmer stated she would not support the proposed CS, because the philosophy was inconsistent with the intent of the bill. She thought the original bill was intended to send the message that Alaska is a friendly business climate for foreign investors. The original bill changed the worldwide apportionment to the water's edge method, like all other states. With adoption of the proposed CS, Alaska would now be the only state not having the exemption to the federal code.

*file CS was to  
of cruiseships*

The bill would also undermine an effort to implement a statewide tourism tax to create a flow of revenue for the marketing effort, similar to the taxation of fishermen to create a flow of revenue to regional aquaculture associations for hatchery efforts. She would like Committee members to consider adoption of the original bill.

Representative Barnes asserted that the cruise ships pay nothing for the use of Alaska's waters and docks. They pollute the environment and Alaska receives nothing in exchange. Representative Ulmer noted that they do pay corporate income taxes on their operations, plus other fees, such as landing fees. She noted the exemption in federal law that prevents multiple taxation in different jurisdictions, and the inconsistency with this law. She said that these cruise lines are paying taxes to the federal government.

Representative Brown thought it was appropriate to attempt to achieve a fair tax policy. The Department of Revenue has been researching this tax apportionment method for some time; the Income and Excise Division has taken the position that they should be taxed. She explained that Commissioner Fisher supported the proposed change. There was further discussion on the apportionment method.

(Tape change, HFC 91-64, Side 1)

Representative Boyer MOVED to adopt the proposed CS, dated April 19, 1991.

A roll call vote was taken on the MOTION.

IN FAVOR: Boyer, Barnes, Brown, Koponen, Larson, Navarre, MacLean, Phillips  
OPPOSED: Sharp, Ulmer

The MOTION passed, 8 - 2.

Representative Jacko was not present for the vote.

TONY KNOWLES  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

HB 313  
P.O. Box 11360  
Juneau Alaska 99811-0001  
1907 465 3100  
Fax 1907 465 3532

February 9, 1998

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

Dear Speaker Phillips:

Today I am transmitting the Alaska Stranded Gas Development Act to advance the development of Alaska's vast supply of North Slope natural gas. This legislation follows the recommendations of the North Slope Gas Commercialization Team which was established by legislation last year to build a framework to improve the economic feasibility and competitiveness of a North Slope gas project.

The bill authorizes the state to negotiate contracts with project sponsors to improve the economic feasibility of developing stranded gas on the North Slope. Contract payments would replace some or all of the state and municipal taxes applicable to the gas project including: 1) state and municipal ad valorem property taxes; 2) production or severance taxes; and 3) state corporate taxes. The state's royalty share of produced gas would not be subject to such a contract. Contract payments would be designed to improve project economics by "back-end loading" tax liabilities to allow project investors to begin to recoup some of their investment before facing a heavy tax burden. The contract payments would also be designed to provide the state with an increased share of the project's revenue if energy prices increase or if the sponsors are able to substantially decrease anticipated project construction costs.

Such contract payments were envisioned in both the House Concurrent Resolution relating to North Slope gas and the gas commercialization team bill passed last year. While the bill is unique in many respects, there are precedents for this type of incentive. For example, the LNG project on the Kenai Peninsula, which provides significant jobs and production and property tax revenue, benefited directly from the Alaska Industrial Incentive Act which provided tax advantages critical for development.

There are several major benefits to the approach authorized in the bill. Fiscal arrangements can be tailored to the specific economics of a gas project. Contractual

The Honorable Gail Phillips  
February 9, 1998  
Page 2

payments are more likely to provide predictability for potential investors in a project. This method also addresses the critical element of local taxes by providing a mechanism for ensuring a steady payment stream to municipalities over the life of the contract.

Local hire and the use of local businesses in any project are also stressed in the legislation. Employers participating in the project are required to advertise locally for available positions, use Alaska job service organizations, and employ qualified Alaska residents and Alaska-owned businesses to the full extent permitted by law.

Any contract negotiated by the Administration would be subject to legislative review and public hearing. Additionally, I would encourage the legislature to require legislative approval of a contract because of the appropriate role of the legislature in such a unique and significant decision. Furthermore, if such a contract in lieu of taxes was considered a tax, the legislature may well be required to approve such action by law.

The bill recognizes that in the process of negotiating a contract it may be necessary to review confidential company data if the state's best interests are to be advanced. The bill strikes a balance between the public's right to review the basis for the contract and the company's right to protect proprietary information from their competitors. Confidentiality of proprietary information is limited to items that, if revealed, would both affect a company's competitive position and significantly diminish the commercial value of the information.

The Stranded Gas Development Act is a critically important step in our efforts to realize the benefits of the enormous gas resources on the North Slope. While it is true a number of other factors must be addressed before a North Slope gas project becomes a reality, such as project cost reductions, market conditions, and the need for more favorable federal tax laws, this bill lays the necessary groundwork for our success. I urge your prompt and favorable action on this measure.

Sincerely,



Tony Knowles  
Governor

**ALASKA STATE CHAMBER OF COMMERCE****Resolution 98-12****Development of Stranded Alaska North Slope Gas**

WHEREAS, Alaska has at least 26 trillion cubic feet of natural gas resources in the Prudhoe Bay field and five to ten trillion cubic feet of additional natural gas resources in other North Slope fields; and

WHEREAS, these natural gas resources are currently stranded, without a transportation means to reach a market; and

WHEREAS, possible favorable conditions for the sale of North Slope gas to Pacific Rim markets beginning after 2005 may exist; and

WHEREAS, the Alaska Legislature recently expressed their support for intensified activities to advance economic North Slope gas sales through their unanimous passage of House Concurrent Resolution No. 1; and

WHEREAS, the Alaska State Chamber also recognizes that the petroleum industry is developing technologies which may offer other alternatives to produce the gas in the future; and

WHEREAS, the Alaska State Chamber believes commercial development of stranded natural gas from the North Slope and the construction of associated facilities would greatly benefit the future economic health of the State of Alaska, its local governments and private enterprise; and

WHEREAS, the Alaska State Chamber supports the commercial development of natural gas from the North Slope including the construction and operation of the associated facilities;

THEREFORE, BE IT RESOLVED that the Alaska State Chamber urges the Governor and the Alaska State Legislature to continue to take those steps, particularly to provide a stable and appropriate fiscal and regulatory environment, which will give an Alaska stranded gas project the best opportunity to become commercially viable, thus enabling the earliest possible development of the resource.

ADOPTED

December 5, 1997

BY

Pamela LaBolle

Pamela La Bolle  
President

BY

David W. Marquez

David Marquez  
Chairman, Board of Directors