

HB

393

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 5/7/98

FURTHER: 5/10/98

DATE TURNED
IN TO OFFICE: 5/10/98

Finance Committee considered CS FOR HOUSE BILL NO. 393(RES)

DEVELOP STRANDED GAS RESOURCES

and recommends:

- be replaced with 5 CS CS HB 393 (FIN)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

Senate Bill:

- same title
- new title
- House Bill:**
- same title
- technical title
- new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Bill of 1998</i>	<input checked="" type="checkbox"/>	<i>Frank Parrnell</i>	<input checked="" type="checkbox"/>		
<i>John Inman</i>	<input checked="" type="checkbox"/>				
<i>Spencer</i>	<input checked="" type="checkbox"/>				
Co-Chair:		Co-Chair: <i>Deane</i>	<input checked="" type="checkbox"/>		
Co-Chair:		Co-Chair: <i>Tom</i>	<input checked="" type="checkbox"/>		

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal
DNR/Mgmt & Admin	2/11/98		10.0
Revenue/Comm. Off	2/11/98		441.6

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

FISCAL NOTE Bill Version: HB 393

BIL (H) Publish Date: 2/11/98

**STATE OF ALASKA
1998 LEGISLATIVE SESSION**

Revision Date: (Note if correction) _____ Dept Affected Natural Resources
 Title: Contracts for payments in lieu of taxes BRU: Commissioner's Office
for stranded gas resources Component: Management and Administration
 Sponsor: Rules Committee
 Requestor: Governor Component Serial No. 423

Expenditures/Revenues (Thousands of Dollars)

	FY99	FY00	FY01	FY02	FY03	FY04
OPERATING EXPENDITURES						
PERSONAL SERVICES						
TRAVEL	10.0	10.0	10.0	10.0	10.0	10.0
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	10.0	10.0	10.0	10.0	10.0	10.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

	FY99	FY00	FY01	FY02	FY03	FY04
1002 Federal Receipts						
1003 GF Match						
1004 GF	10.0	10.0	10.0	10.0	10.0	10.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	10.0	10.0	10.0	10.0	10.0	10.0

Estimate of any current year (FY98) cost: \$ _____

POSITIONS

	FY99	FY00	FY01	FY02	FY03	FY04
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)

It is expected that negotiation of these contracts will require travel by the commissioner of the department.

Prepared by: Nico Bus *Nico Bus for* Phone: 465-2400
 Division: Support Services Date: 8-Feb-98
 Approved by Commissioner: *Nico Bus for John Swirey* Date: 2-8-98
 Agency: Natural Resources

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	FY 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
TOTAL OPERATING	491.6	117.7	119.0	120.3	121.6	122.9
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ()						

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					
TOTAL	491.6	117.7	119.0	120.3	121.6	122.9

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
February 9, 1998
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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.

TONY KNOWLES
GOVERNOR



HB 313

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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 9, 1998

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

Dear *Gail* 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
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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