

SB

143

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FILE

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 143
 () Publish Date: _____
 Dept. Affected: Natural Resources
 BRU: Oil & Gas Development
 Component: Pipeline Coordinator
 Component Number: 1191

Revision Date/Time (Note if correction): _____
 Title: Right-of-Way Leasing Act: Application Cost
 Sponsor: Senate Resources
 Requester: Senate Resources

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	*	*	*	*	*	*

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						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY2001) cost: none
 Check this box (X) if funding for this bill is included in the Governor's FY2002 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The fiscal note estimates that \$3,464,300 will be needed through the first half of FY02 to prepare to receive a gas pipeline application. Those costs include work to establish a Gas Pipeline Office and to provide technical assistance to proponents. It also includes efforts related to permit process streamlining, such as consultation with the state's federal and Canadian counterparts. DNR estimates that least 50 percent of the total may be reimbursable through agreements with project proponents.

(continued on attached page)

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 Division: State Pipeline Coordinator's Office Date/Time 30-Apr-01
 Approved by: Pat Pourchot Date 30-Apr-01
 Agency: Natural Resources

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An asterisk is included in FY02 because the exact number will not be known until negotiations with proponents are complete.

An asterisk is included in the columns for FY03-FY07 due to Section 2 of SB 143 (the proposed AS 38.35.145(c)). During the last several years, the number of preapplication efforts ongoing with the SPCO has varied from zero to three. DNR estimates that SPCO cost associated with these efforts have averaged approximately \$10K per month. These costs have been funded by GF/PR secured through memoranda of agreements with the project proponents, as envisioned by SB 143.

However, the proposed AS 38.35.145(c) appears to make such agreements impossible after December 31, 2003. Any preapplication expenses after that date not covered by an existing agreement would need to be funded by GF, or could not occur. It is possible that pipelines associated with Point Thompson, NPRA, and ANWR could occur after that date.

Finally, it is important to note that SB 143 presents the opportunity, not obligation, for project proponents to enter into preapplication reimbursable agreements with the SPCO. Although it is expected that they will do so, there are no guarantees.

ALASKA STATE LEGISLATURE



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Senator Drue Pearce, Vice Chair
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SENATE RESOURCES COMMITTEE

SPONSOR STATEMENT

SB 143

“Right-Of-Way Leasing Act: Application Cost”

One of the legislature’s priorities is commercialization of North Slope gas. Any sponsor of a pipeline project will have to obtain a right-of-way across state lands. This bill would authorize the state to be reimbursed for work performed by the State Pipeline Coordinator’s Office (SPCO) in preparing to receive and process an application for a right-of-way lease. It also clarifies that an applicant must reimburse the SPCO for costs incurred in processing an application whether or not the application is granted.

AS 38.35.140 provides that a lessee shall reimburse the state for all reasonable costs incurred in processing an application filed for a right-of-way lease. The SPCO has entered into an agreement with a lessee seeking to renew a lease. The lessee has agreed to reimburse the state for costs incurred before receipt of the renewal application. However, legislative legal services has questioned whether existing law authorizes the state to be reimbursed for costs incurred before the receipt of an application. The SPCO anticipates that it will be asked to perform substantial work by prospective gas pipeline lessees this year in anticipation of filing applications later this year or early next year. Much of the cost of this work would clearly be reimbursable to the state if the prospective lessee actually had a pending application. It is important to ensure that the state is reimbursed for the significant cost that it will incur in performing work in anticipation and furtherance of the application process.

Additionally, the SPCO, in the past, has required a prospective lessee to reimburse the state for costs incurred in processing an application even if the application has not been granted. This bill would conform the law to existing practice between the SPCO and prospective lessees to make clear that the state must be reimbursed for the costs of processing an application whether or not the lease is ultimately granted. Prospective lessees cannot expect the state to pay for services requested by them on routes that ultimately are not selected or on applications that may ultimately be withdrawn, suspended, or otherwise not granted.

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SENATE RESOURCES COMMITTEE

Sectional Analysis for SB 143

“An Act authorizing the Department of Natural Resources to enter into agreements with a person or persons desiring to own an oil or natural gas pipeline proposed to be located on state land for the purposes of providing for payment of the reasonable costs incurred in preparing for activities before receipt of an application under the Alaska Right-of-Way Leasing Act and for activities relating to the processing of an application under that Act; and providing for an effective date.”

One of the legislature's priorities is commercialization of North Slope gas. Any sponsor of a pipeline project will have to obtain a right-of way across state lands. This bill would authorize the state to be reimbursed for work performed by the State Pipeline Coordinator's Office (SPCO) in preparing to receive and process an application for a right-of-way lease.

Section #1 – This section amends AS 38.35140(b) to clarify that a lease applicant must reimburse the state for all reasonable costs incurred in processing an application even if the application is not granted. An applicant cannot expect the state to pay for services requested by the applicant on routes that ultimately are not selected or on an application that may ultimately be withdrawn, suspended, or otherwise not granted.

Section #2 – This section adds a new section to AS 38.35. AS 38.35.140 provides that a lessee shall reimburse the state for all reasonable costs incurred in processing an application for a right-of-way lease. Although once before the SPCO has entered into an agreement to be reimbursed for costs incurred before an application is received, legislative legal services has questioned whether this is authorized under existing law. The SPCO anticipates that it will be asked to perform substantial work by prospective gas pipeline lessees this year in anticipation of filing applications later this year or early next year. This work would clearly be reimbursable if the prospective lessee actually had a pending application. This section will insure that the state is reimbursed for the significant cost that it will incur in performing work in anticipation and furtherance of the application process.