

HB

519

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: CSHB 519(FIN)
 (H) Publish Date: 4/30/02

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Natural Gas Pipeline BRU Administration and Support
Special Provisions Component Office of the Commissioner
 Sponsor House Rules Committee
 Requester House Finance Committee Component No. 123

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	83.0	83.0				
Travel	30.0	30.0				
Contractual	420.0	420.0				
Supplies	5.0	5.0				
Equipment	6.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	544.0	538.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()			(19,000.0)	(50,000.0)	(69,000.0)	(76,000.0)
-------------------------------	--	--	-------------------	-------------------	-------------------	-------------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	294.0	288.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Statutorily Designated Receipts	250.0	250.0				
TOTAL	544.0	538.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time	1	1				
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached pages.

Prepared by: Larry Persily, Deputy Commissioner Phone 465-5469
 Division Department of Revenue Date/Time 4/29/02 9:34 PM
 Approved by: Wilson Condon, Commissioner Date 4/29/2002
 Agency Department of Revenue

CSHB 519(FIN) - Department of Revenue

OVERVIEW – Stranded Gas Development Act and Alaska Railroad Bond Issuance

This legislation would reauthorize the Alaska Stranded Gas Development Act under AS 43.82. The act expired June 30, 2001, and this legislation would extend the application date for a project sponsor from June 30, 2001 to April 1, 2004.

The Stranded Gas Development Act, adopted by the 1998 Legislature, authorized the Commissioner of Revenue to negotiate a contract for payments in lieu of taxes with the developer of an LNG project to commercialize Alaska's North Slope natural gas reserves. No project sponsor applied under the act before it expired last year. The intent of the legislation was to provide a mechanism whereby the state could help promote commercialization of its natural gas reserves by structuring payments in lieu of taxes to help relieve the burden on a project sponsor in the early years, when cash flow is not positive, and in return receive a larger share of the revenues in later years after the project sponsor had recovered its heavy development costs. This also would allow the state to receive a greater share of the revenues in later years if gas prices increased.

The Stranded Gas Act allows for a negotiated contract for payments in lieu of one or some or all of the following taxes:

- Production taxes and surcharges
- Oil and gas production property taxes (state and municipal portions) under AS 43.56)
- Municipal property taxes
- Municipal special assessments
- Corporate income taxes
- Municipal sales and use taxes

This legislation (HB 519) expands the definition of a qualifying project under the Stranded Gas Act to include a natural gas pipeline to serve markets outside Alaska. In addition, this legislation clarifies the definition of a qualifying LNG project to include any project that serves Lower 48 states or overseas markets.

This legislation also would authorize the Alaska Railroad Corporation to issue up to \$17 billion in tax-exempt bonds to help finance the natural gas project. Although the Railroad Corporation would issue the bonds, the project sponsor(s) would be responsible for all of the debt and liable for 100% of the repayment of the bonds. Neither the Alaska Railroad Corporation nor the State of Alaska would be liable for the debt, which would be secured by the project developer(s) and the project's revenue stream. The tax-exempt financing would help reduce the project's cost of debt.

CSHB 519(FIN) - Department of Revenue

COST OF LEGISLATION

This fiscal note includes the following costs and assumptions leading up to the costs:

- We assume the state would receive a project application early in Fiscal 2003.
- Negotiating the contract for payments in lieu of taxes would start immediately, and would be completed with the conclusion of the 2004 legislative session.
- Project construction would start in Fiscal 2005 and continue through Fiscal 2008.
- Natural gas production would start in Fiscal 2009.
- A special assistant to the commissioner would be hired for Fiscal 2003 and 2004 to coordinate the Department of Revenue's work with the project sponsor and the affected communities. *(\$83,000 per year for total personnel costs)*
- Travel, supplies, contractual and equipment costs would be associated with the new position and with the department's overall effort to meet with the project applicant and officials of the affected communities. *(\$45,000 per year)*
- The contractual expenses would be incurred in two areas:
 1. Oil and gas economic and tax consultants to advise the department in negotiating with the project applicant and structuring a contract for payment in lieu of taxes that is both advantageous to the project and provides for a fair return to the state on the publicly owned resource. *(\$250,000 per year, to be reimbursed by the project applicant)*
 2. A Reimbursable Services Agreement with the Department of Law to assist in the legal issues involved in negotiating a contract in lieu of taxes. *(\$100,000 per year)*
- Because of the importance of this project to the state's economy and public finances, and the complexity of the bond issuance, it is important that the Railroad Corporation receive expert advice. The Department of Revenue proposes to transfer to the Railroad Corporation, via a Reimbursable Services Agreement, \$50,000 per year for the first two years to ensure that the corporation can contract with a financial adviser and bond counsel for this project. The Commissioner's Office also requests \$10,000 per year to cover the expenses of contracting with the state's financial adviser and bond counsel to make certain that the state's own interests, separate from those of the Railroad Corporation, are adequately considered and protected.

Money for the new position, contractual and supplies are requested from the general fund. That total is \$294,000 in Fiscal 2003 and \$288,000 in Fiscal 2004.

The cost of the independent consultants allowed under AS 43.82.240 to assist in the department's evaluation of the project application and in developing terms of the contract would be reimbursed by the applicant. The statute allows the commissioner to condition the contract on agreement by the applicant to reimburse the state for the expenses of the independent contractors. Those funds are requested as authority to receive and expend statutorily designated program receipts. Those costs are \$250,000 each in Fiscal 2003 and Fiscal 2004.

CSHB 519(FIN) - Department of Revenue

PROPERTY TAX WAIVER

Although the Stranded Gas Act calls for the commissioner to negotiate a contract for payments in lieu of taxes, including property taxes, this legislation waives all state and municipal property taxes on the project during construction and in the first 24 months of operation. This also would be imposed upon municipalities, which would not have any option in accepting or rejecting the 100% property tax waiver for the estimated six years total of construction and operation.

The department believes it is premature to waive an estimated \$763 million in municipal and state property taxes without first determining if the tax relief would be needed to help make the project economical. (The \$763 million estimate is based on the assumption that the tax waiver would apply only to the pipeline, compressor stations along the line, and a gas conditioning plant at Prudhoe Bay.) The department believes such a complete waiver of taxes could be giving away more than necessary to make the project economical. Proponents argue, however, that the state would not be waiving any taxes, since the line would not be built without the waiver.

The tax waiver also could apply to other facilities associated with the gasline. The department believes the language in this legislation is ambiguous and could result in oil and gas producers and/or the project developer reaching further than intended by this bill in an attempt to bring other facilities under the waiver provision. This fiscal note estimate of property tax revenues that would be lost does not include such facilities as additional gas conditioning plants, separation facilities, well conversion and Point Thomson field developments, but the department is concerned that owners of these properties also might construe the waiver to their benefit.

The Stranded Gas Act allows for tax relief or deferral, but the explicit mandate of the Act was to tailor the state's fiscal terms to the particular economics of the project and to maximize the benefit to the people of the state from the development. For example, the Act enables the state to give tax relief where needed to make the project economic, but then recoup its foregone revenue — or more — when the project's economics improve.

Under this bill, however, the state would get nothing in exchange for property tax relief. What happens if the price of gas goes up and the project developer profit enormously from the upside, but the state would lose out on sharing in that additional profit potential as "repayment" for any tax relief granted early in the development? Yes, the legislature could then raise taxes, but this is not the fiscal certainty that the state and potential project sponsors seek from this legislation.

The department recommends changing the waiver provision of this bill to (1) include an opportunity for the state to share in the potential future benefits from the project as part of the package for any tax relief, (2) provide an opportunity for the affected communities to participate in the tax relief discussions, and (3) a tighter definition of facilities eligible for the tax relief.

CSHB 519(FIN) - Department of Revenue

DECREASE IN STATE and MUNICIPAL REVENUES

Under Sections 4 and 5 of this legislation:

- The state would lose an estimated \$359 million or more in property tax revenues during construction and through the first 24 months of project operation.
- The Fairbanks North Star Borough and North Slope Borough would lose an estimated \$404 million or more in property tax revenues during construction and through the first 24 months of production.
- Although the state and the municipalities would never receive this property tax revenue if the project is not built, there is no opportunity to determine whether the tax relief provided by this bill is needed to make the project economic.
- The above property tax estimates are based on a natural gas project carrying North Slope gas to Alberta, for distribution to markets in the Lower 48 states. The estimate of lost revenues would be different and would include additional municipalities if the project was an LNG line to tidewater at Valdez or Cook Inlet.
- The affected municipalities would face higher expenses during the influx of construction workers and the resulting demand for increased school, police, road and various other public services. Meeting those demands without the ability to tax the project itself would put a severe strain on local resources. This issue is at least partially met by the section of the legislation that would establish a Natural Gas Pipeline Impact Assistance Fund at the Department of Community and Economic Development. Subject to future legislative appropriations, the department could use the fund to make state grants to affected municipalities.
- One option for localities would be raise property taxes on all other property within their jurisdiction. The state's share of property taxes on the Trans-Alaska Oil Pipeline and other oil and gas facilities already in place is reduced dollar for dollar by property taxes paid to local communities. Therefore increased municipal property taxes in the affected municipalities would reduce the state's oil and gas property tax receipts.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: CSHB 519(FIN)
 (H) Publish Date: 5/1/02

Revision Date/Time (Note if correction): _____ Dept. Affected: _____
 Title Natural Gas Pipeline: Special Provisions BRU Alaska Railroad Corporation
 Component Alaska Railroad Corporation
 Sponsor House Rules
 Requester House Finance Component No. _____

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			163,000.0			
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	163,000.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Bond proceeds			163,000.0			
TOTAL	0.0	0.0	163,000.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0
 Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Please see second page.

Prepared by: Bill O'Leary, Vice President, Finance and Chief Financial Officer Phone (907) 265-2516
 Division Alaska Railroad Corporation Date/Time 4/30/02 3:14 PM
 Approved by: Deborah B. Sedwick, Commissioner Date 4/30/2002
 Agency Department of Community & Economic Development

FISCAL NOTE #4

STATE OF ALASKA
2002 LEGISLATIVE SESSION

BILL NO. CSHB 519(FIN)

ANALYSIS CONTINUATION

The bill authorizes the issuance of up to \$17 billion in revenue bonds by the Alaska Railroad Corporation (ARRC) to pay for 70% of the construction of a Natural Gas Pipeline. Based on current estimates, ARRC could issue \$14.265 billion in bonds as early as State Fiscal Year 2005. ARRC will act as a conduit for the issuance of these bonds to allow the debt to be issued as tax exempt. Through modeling, the tax exemption has been shown to reduce the cost of financing the project by over one billion dollars. The bonds would be solely secured by revenues generated by the pipeline. The Alaska Railroad will bear no liability and have no responsibility for repayment of the bonds.

The projected costs of issuing the bonds determined here will be paid with bond proceeds at closing. Anticipated professional services include those related to financial advisors, attorney's fees (bond, counsel, underwriters counsel, tax counsel, negotiating with producers), rating agencies, underwriters, printing, travel, public notices, and feasibility consultant. ARRC will front certain minor necessary reimbursable costs from corporation revenues.

For purposes of this fiscal note, it is assumed that bonds with a face value of \$14.265 billion will be issued in FY 2005. The bonds are expected to be issued with a 25 year term and for modeling purposes carry an interest rate of 6.5%. As the project will not generate revenue while under construction, the first two years of interest payments will be made with bond proceeds. Following construction, annual debt service will begin at approximately \$1.3 billion, growing to \$1.4 billion in year 6 and then gradually lowering to \$800 million in the final year. However, ultimately, issuance amounts, dates, term, and other significant variables will be dependent upon the financing structure determined by market conditions at the time of sale of the bonds.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 5
 Bill Version: CSHB 519(FIN)
 (H) Publish Date: 5/1/02

Revision Date/Time (Note if correction): 5/1/2002
 Title: Natural Gas Pipeline: Special Provisions

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

Sponsor: House Rules Committee
 Requester: House Rules

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	<i>See Note on Page 2:</i>					
Travel	40.0	40.0				
Contractual	200.0	200.0				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	240.0	240.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()			*See Below			
-------------------------------	--	--	-------------------	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	40.0	40.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Stat. Des. Prog. Receipts	200.0	200.0				
TOTAL	240.0	240.0	0.0	0.0	0.0	0.0

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, in reviving the Alaska Stranded Gas Development Act, allows the state, with the concurrence of its North Slope oil and gas lessees, to: (1) establish a valuation methodology for the state's royalty share of gas production, and (2) modify existing requirements regarding the timing and notice of the state's right to take royalty in-kind or in-value.

Continued on next page.

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

Phone 269-8800
 Date/Time 1-May-02
 Date 1-May-02

ANALYSIS: (continued) - CSHB 519(FIN) - FN#5

* HB 519, by extending the Stranded Gas Act, authorizes negotiations to "establish" a valuation method for the state's royalty share of gas production from an approved qualified project. Actually, a valuation methodology already exists in the state's oil and gas leases. Generally, that methodology requires the payment of royalties on the highest of: (1) the market value of the gas; (2) the lessee's actual proceeds from the sale of its own gas; or (3) an average of the actual proceeds of other proximate lessees from the sale of their own gas. Consequently, any valuation methodology agreed to through negotiations conducted under HB 519 may result in the collection of lower royalties than would be available under the existing valuation methodology. In fact, every \$0.01/mcf difference in royalties due under alternative valuation methodologies results in a \$36.5 million impact on the state treasury over 20 years for a 4 bcf pipeline, and a \$54.7 million impact for a 6 bcf pipeline. However, it is impossible to determine at this time whether a new valuation methodology would be agreed to under HB 519 and, if so, whether and to what extent it would reduce royalty payments to the state.

DNR estimates that HB 519, if passed, would require at least \$480,000 in expenditures to address any application to "establish" a royalty valuation method, \$400,000 of which would be reimbursed over a 2-year period by the applicant for change in methodology. DNR will need to obtain access to and review extensive documentation pertaining to the economics of any proposal, 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 to assure that royalty relief is not inadvertently or imprudently given, though the cost of that expert or those experts is to be borne by the applicant. Finally, significant sums would be needed for travel and document reproduction and indexing expenses.

The cost of the independent consultants allowed under AS 43.82.240 to assist in the evaluation of a request to change the royalty valuation methodology could be reimbursed by the applicant. The statute allows the state to condition any contract on agreement by the applicant to reimburse the state for the expenses of the independent contractors. Those funds are requested as authority to receive and expend statutorily designated program receipts. Those costs are \$200,000 each in Fiscal 2003 and Fiscal 2004.

NOTE:

The estimated costs are split into two years for purposes of this fiscal note, however it is difficult to determine how much would actually be required in each year. The solution is to fund the full amount (\$480,000) as a single appropriation with a two-year lapse date.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: 6
 Bill Version: CSHB 519(RLS)
 (H) Publish Date: 5/6/02

Revision Date/Time (Note if correction): _____ Department: Labor and Workforce Development
 Title: Natural Gas Pipeline: Special BRU: Office of the Commissioner
 Component: Commissioner's Office
 Sponsor: House Rules
 Requester: House Rules Component Number: 340

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	3.0					
Contractual	21.5					
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	24.5	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	24.5					
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	24.5	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: None

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This act would require the department to hold at least one public hearing prior to making a finding regarding if an application for a natural gas project ensures employment of Alaskans and the use of Alaskan firms in the construction and operation of the project. The department proposes to hold public hearings in Anchorage, Fairbanks and Juneau as well as a statewide teleconference. Costs associated with this bill include travel to attend the hearings, the costs to advertise and hold the hearings and costs to obtain legal advice regarding the finding.

Prepared by: Remond Henderson, Director Phone: 465-2720
 Division: Administrative Services Date/Time: 5/2/02 1:21 PM
 Approved by: Ed Flanagan, Commissioner Date: 05/02/02
 Agency: Department of Labor and Workforce Development

For distribution information, call the Governor's Legislative Office

*WD By BP
w/obj
5-4-02*

22-LS1651\H
Chenoweth
5/4/02

*mo
By VK
w/obj
5-4-02*

CS FOR HOUSE BILL NO. 519(RLS)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY THE HOUSE RULES COMMITTEE

Offered:
Referred:

Sponsor(s): HOUSE RULES COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing priority treatment under the Right of-Way Leasing Act for an
 2 Alaska North Slope natural gas project and limiting judicial review of action under that
 3 Act relating to that project; authorizing the Alaska Railroad Corporation to provide
 4 financing for the acquisition, construction, improvement, maintenance, equipping, or
 5 operation of facilities for the transportation by others of natural gas resources within
 6 and outside the state and to issue its bonds to finance those facilities; exempting an
 7 Alaska North Slope natural gas project from state and municipal property taxes during
 8 construction and initial operation, eliminating the authority of a municipality to levy a
 9 sales or use tax on property or services used or to be used on the project, and defining
 10 the scope of that project; providing, through the Department of Community and
 11 Economic Development, emergency financial assistance for municipalities affected by
 12 natural gas development; expanding the scope for the kinds of gas development projects

1 that may become qualified projects under the Alaska Stranded Gas Development Act,
2 amending the definitions of 'qualified sponsor' and 'qualified sponsor group' under that
3 Act, extending the deadline for submitting applications under that Act, and modifying
4 the conditions under which an application made under that Act may be considered; and
5 providing for an effective date."

6 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

7 * **Section 1.** The uncodified law of the State of Alaska is amended by adding a new section
8 to read:

9 **FINDINGS AND INTENT.** The legislature finds that

10 (1) a vast quantity of gas in Alaska is currently stranded from commercial
11 development, in part due to the cost associated with providing access to markets for that gas;
12 the Alaska North Slope has the largest known discovered natural gas resources, estimated to
13 be 35 trillion cubic feet, in the United States and has undiscovered gas resources estimated to
14 be in excess of 100 trillion cubic feet;

15 (2) demand for natural gas in the lower 48 states is expected to experience
16 record growth; the lower 48 states have an inadequate resource base to meet this expected
17 demand, and there is an urgency to make an Alaska natural gas pipeline project move forward
18 to fill this gap with North American gas rather than with gas from uncertain sources overseas;

19 (3) it is important for the United States to have a reliable and affordable source
20 of domestic natural gas for energy for its economy, for the well-being of its citizens, for the
21 growth of its businesses, and for the national security;

22 (4) the North Slope of Alaska is one of the few known locations in the United
23 States that can supply significant natural gas supplies to the lower 48 states for years to come;

24 (5) during the past three decades, several companies and entities have studied
25 different ways to commercialize Alaska North Slope gas and have been unsuccessful in
26 identifying an economic project; most recently, the three major producers, through their
27 Alaska Gas Producers Pipeline Team, have studied a southern route approximately following
28 a route along the Trans Alaska Pipeline System from Pump Station One to Delta Junction and
29 along the Alaska Highway through Alaska and Canada to the lower 48 states and a northern

1 route off the shore of the Arctic National Wildlife Refuge in the Beaufort Sea, and have
2 concluded that neither is sufficiently economic, given the magnitude of the risks associated
3 with the project; however, at least one producer has indicated a willingness to proceed further
4 if federal and state enabling legislation with provisions to mitigate long-term natural gas price
5 risks and for fiscal certainty and incentives is enacted;

6 (6) the major producers have proposed new federal enabling legislation that
7 they believe will expedite the construction and operation of a natural gas pipeline from the
8 North Slope to the lower 48 states;

9 (7) in addition to the state's receipt of revenue from taxes and royalties,
10 Alaskans will benefit from the commercialization of Alaska North Slope natural gas through
11 opportunities for in-state use of the natural gas and for participation by Alaskans in
12 construction, maintenance, and operation of a natural gas pipeline project;

13 (8) because of the high cost of providing access to markets for Alaska North
14 Slope gas, exploration efforts on the North Slope have historically focused on oil; recently,
15 some companies have expressed interest in gas exploration; if the infrastructure needed to
16 provide access to market for Alaska North Slope gas were available, new gas exploration
17 efforts might be initiated on the Alaska North Slope and in other basins that currently remain
18 largely unexplored for oil and gas; it is vital to the State of Alaska that there be continued and
19 robust exploration and development of natural gas resources on the Alaska North Slope;

20 (9) Alaskans need a portion of the gas from a natural gas pipeline project for
21 in-state use; however, it is unlikely that markets will develop within the state that would need
22 more than a relatively small portion of the volume of gas already discovered on the Alaska
23 North Slope; it is vital for economic development that Alaska communities and businesses
24 have access under fair and reasonable terms to the pipeline for in-state use of Alaska North
25 Slope natural gas;

26 (10) the construction and operation of a natural gas pipeline in the state and
27 the sale of Alaska North Slope gas is critical to the health and welfare of the state

28 (11) for a natural gas pipeline project to become economically viable and
29 competitive, the estimated costs of constructing the project and the associated financial risk
30 must be reduced significantly; changes in the local, state, and federal tax structure may also be
31 necessary to make commercialization of the gas resources economically viable by, in part,

1 structuring tax and royalty incentives related to the project and providing as much clarity and
2 certainty as possible regarding the taxes that would apply to a project throughout its life;

3 (12) art. IX, sec. 4, Constitution of the State of Alaska, empowers the
4 legislature to create tax exemptions by general law, and the creation of tax exemptions to
5 make Alaska North Slope gas commercially viable and competitive is consistent with the
6 legislature's responsibility under art. VIII, sec. 2, Constitution of the State of Alaska;

7 (13) good faith efforts by producers and other companies engaged in the
8 design, construction, and operation of the natural gas pipeline voluntarily to provide
9 employment opportunities for Alaska residents and opportunities for Alaska businesses are in
10 the long-term interests of the state;

11 (14) there has been a history of costly disputes between producers of oil and
12 the state over the determination of the production taxes due for oil produced and sold, in part
13 because of disputes over the definition of terms pertinent to the calculation of the tax;

14 (15) it is in the state's best interest to provide clarity and certainty to the
15 process of determining a producer's tax and royalty liability, AS 43.82 (Alaska Stranded Gas
16 Development Act) provides, among other provisions, in AS 43.82.020, 43.82.200, and
17 43.82.210, mechanisms for the state and the sponsor of a North Slope natural gas pipeline
18 project to negotiate a contract that could provide that clarity and certainty and resolve other
19 important issues, including accommodating the interests of affected municipalities.

20 * Sec. 2. The uncoded law of the State of Alaska is amended by adding a new section to
21 read:

22 FINDINGS, INTENT, AND PURPOSE OF SECTIONS 4 - 6 AND 19. (a) The
23 Alaska State Legislature finds that

24 (1) the Alaska Railroad Corporation is uniquely suited to serve essential
25 functions of the state by providing financing for a facility for the transportation of certain
26 natural gas resources located within the state;

27 (2) providing financing for that facility furthers the purposes of both the state
28 and the Alaska Railroad Corporation by assuring that the state's natural gas resources will be
29 transported to their appropriate markets, thus creating revenue for the Alaska Railroad
30 Corporation and for the state and providing employment opportunities for residents of the
31 state;

1 (3) the facility also will enhance and improve the state's ability to develop and
2 transport other natural resources of the state, including oil and gas resources located off the
3 North Slope of this state; and

4 (4) these results are essential purposes of the state and the achievement of
5 these purposes is critical to the health and welfare of the state.

6 (b) A purpose of secs. 4 - 6 and 19 of this Act is to clarify the statutory functions and
7 powers of the Alaska Railroad Corporation by expressly including the power to provide
8 financing for transportation facilities as described in those sections of this Act.

9 (c) It is the intent of the legislature that

10 (1) secs. 4 - 6 and 19 of this Act be construed broadly to permit the Alaska
11 Railroad Corporation the greatest flexibility to accomplish the purpose described in (b) of this
12 section within the limitations set out in those sections of this Act; and

13 (2) other provisions of AS 42.40 in existence before the enactment of secs. 4 -
14 6 and 19 of this Act be similarly construed to complement the provisions of this Act.

15 * Sec. 3. AS 38.35 is amended by adding new sections to read:

16 **Sec. 38.35.240. Expeditious priority treatment by state officials and**
17 **agencies in support of development and construction of an Alaska North Slope**
18 **natural gas project under this chapter.** (a) In the development and construction of
19 an Alaska North Slope natural gas project that requires the grant of a right-of-way
20 lease under this chapter, every state official and agency shall give full cooperation to
21 the commissioner, or to any official to whom delegation of the authority of the
22 commissioner is made by or under law, consistent with the provisions of the law
23 administered by the official or agency, by issuing or granting necessary permits,
24 certificates, authorizations, and similar actions required to be taken at the earliest
25 practicable date, with action to be taken on an expedited basis and, notwithstanding
26 any other provision of law, having precedence over any like matter pending before the
27 official or agency.

28 (b) In the commissioner's consideration of an application under this chapter
29 for a lease for the Alaska North Slope natural gas project, the commissioner may limit
30 the scope of review, analysis, and finding for the applicant's proposed lease
31 application under this chapter to a particular phase of the project if, in the judgment of

1 the commissioner, the project is capable of proceeding in discrete phases and

2 (1) the uses and activities involving the project on the land for which
3 the approval is to be granted are part of that discrete phase;

4 (2) before the next phase of the project may proceed, the commissioner
5 gives public notice and opportunity for comment about that phase, unless the use or
6 activity to be approved is subject to a consistency determination under AS 46.40 and
7 public notice and the opportunity to comment are provided under AS 46.40.096(c);

8 (3) the commissioner's approval is required before the next phase of
9 the project may proceed; and

10 (4) the commissioner sets out the reasons for proceeding on the
11 application in discrete phases.

12 (c) In this section, "Alaska North Slope natural gas project" means "North
13 Slope natural gas pipeline" as set out in AS 38.35.120(a)(1)(B), including the facilities
14 that are necessary for, and to the extent used for, treating and conditioning the gas to
15 be transported, and the components of the processing plants associated with natural
16 gas conditioning, to be constructed or modified to follow generally a route that
17 parallels the Trans Alaska Pipeline System and the Alaska Highway to the Canadian
18 border, or to tidewater for liquefied natural gas, and any spur lines to serve people in
19 the state, to transport natural gas derived from the area of the state lying north of 64
20 degrees North latitude.

21 **Sec. 38.35.245. Judicial review.** Notwithstanding AS 38.35.200 and
22 notwithstanding any other provision of law, with respect to a decision made or action
23 taken bearing upon the development, construction, and operation of an Alaska North
24 Slope natural gas project, as described in AS 38.35.240, a person may seek judicial
25 review of a decision of the commissioner under AS 38.35.100 or 38.35.240 or of any
26 agency or employee relating to the project only on the grounds provided in
27 AS 38.35.200(b). The claim for judicial review may be brought only within 60 days
28 after the making of the decision or taking of the action.

29 * **Sec. 4.** AS 42.40.250 is amended by adding a new paragraph to read:

30 (31) provide financing for the acquisition, construction, improvement,
31 maintenance, equipping, and operation of facilities for the transportation of natural gas

1 resources within and outside the state without regard to whether the facilities are or
2 will be owned in whole or in part by the corporation or located on land owned by the
3 corporation.

4 * Sec. 5. AS 42.40.630 is amended by adding new subsections to read:

5 (b) Before issuing bonds to provide the financing described in
6 AS 42.40.250(31) for a facility to be owned in whole or in part by an entity other than
7 the corporation, the corporation shall enter into a contract, lease, or other form of
8 agreement that will, in the judgment of the corporation, provide sufficient
9 consideration to

10 (1) pay the principal of and interest on the bonds as they become due;

11 (2) create and maintain the reserves for the payments that the
12 corporation considers necessary or desirable; and

13 (3) pay all costs necessary to service or additionally secure the bonds,
14 including trustee's fees and bond insurance premiums, unless these costs are to be paid
15 by a party other than the corporation.

16 (c) Before issuing bonds to provide the financing described in
17 AS 42.40.250(31), whether for a facility to be owned by the corporation or for a
18 facility to be owned as described in (b) of this section, the corporation shall obtain the
19 prior approval of the governor.

20 * Sec. 6. AS 42.40 is amended by adding a new section to read:

21 **Sec. 42.40.695. Public purpose of bonds.** Bonds of the corporation issued to
22 finance facilities described in AS 42.40.250(31) are issued by a public corporation and
23 an instrumentality of the state for an essential public and governmental purpose.

24 * Sec. 7. AS 43.56.020(a) is amended to read:

25 (a) The following are exempt from local taxes levied or authorized under
26 AS 43.56.010(b):

27 (1) property rights attached to or inherent in the right to explore for or
28 produce oil or gas;

29 (2) oil or gas leases or properties, whether producing or not;

30 (3) oil or gas in place;

31 (4) oil or gas produced or extracted in the state;

1 (5) the value of intangible drilling expenses and exploration expenses;

2 (6) an interest in property described in AS 43.55.017(a);

3 (7) an interest in taxable property that is part of an Alaska North

4 Slope natural gas project, whether or not, under AS 43.82, the project has been
5 determined by the commissioner of revenue to meet the requirements of
6 AS 43.82.100, from the project's construction commencement date as defined in
7 AS 43.56.210, as determined by the commissioner, until 12 full calendar months
8 after the calendar month that the project is placed in service, but not later than
9 December 31, 2012, but the commissioner shall extend this date after project
10 construction has commenced if that construction is delayed due to litigation or to
11 shortages of supplies for construction that are not due to or under the control of
12 a taxpayer who is a producer, as that term is defined in AS 31.05.170, or not due
13 to or under the control of a project sponsor.

14 * Sec. 8. AS 43.56.020(b) is amended to read:

15 (b) There is exempt from state taxes levied or authorized under
16 AS 43.56.010(a),

17 (1) before the construction commencement date, property that is
18 committed by contract or other agreement for use in this state primarily for the
19 production or pipeline transportation of gas or unrefined oil, or in the operation or
20 maintenance of facilities for the production or pipeline transportation of gas or
21 unrefined oil; and

22 (2) taxable property described in (a)(7) of this section, subject to
23 the requirements or conditions of (d) of this section.

24 * Sec. 9. AS 43.56.020 is amended by adding new subsections to read:

25 (d) For the Alaska North Slope natural gas project, the exemptions provided in
26 (a)(7) and (b)(2) of this section do not apply unless a taxpayer, or a person acting
27 under contract with the taxpayer or the project's sponsor,

28 (1) complies with all relevant requirements of 15 U.S.C. 717z (Natural
29 Gas Act) or 15 U.S.C. 719 - 719o (Alaska Natural Gas Transportation Act of 1976), as
30 applicable to the project;

31 (2) complies with all valid federal, state, and municipal laws relating to

1 hiring Alaska residents and contracting with Alaska businesses to work in the state in
2 the design, construction, and operation of the project to the extent the residents and
3 businesses are available, competitively priced, and qualified, and the taxpayer or
4 project sponsor does not discriminate against Alaska residents or businesses;

5 (3) advertises for available positions in newspapers in the location
6 where the work is to be performed and in other publications distributed throughout the
7 state, including in rural areas, and uses Alaska job service organizations located
8 throughout the state and not just in the location where the work is to be performed in
9 order to notify Alaskans of work opportunities on the project;

10 (4) within the constraints of law, encourages the owner's contractors to
11 train and subsequently to hire state residents consistent with (2), (3), and (5) of this
12 subsection;

13 (5) recruits, within the constraints of law, and employs qualified state
14 residents as workers on available jobs; the owner shall prepare and submit to the
15 commissioner of labor and workforce development

16 (A) on an annual basis, a report that sets out in detail the
17 specific measures that the owner and the owner's contractors have taken or are
18 planning to take

19 (i) to recruit qualified state residents for available jobs
20 and that describes job training opportunities; and

21 (ii) to use Alaska businesses;

22 (B) on a quarterly basis, using state data, a report concerning
23 the use of state residents, including the number of residents hired or employed
24 during the previous period;

25 (6) makes, as permitted by law, reasonable efforts

26 (A) to employ Alaska firms that are available, competitively
27 priced, and qualified to perform engineering and construction services; and

28 (B) to fabricate or manufacture in the state needed gas
29 production and pipeline modules and other facilities;

30 (7) agrees to apply, after the project is placed in service, and does
31 apply the full amount of the tax exemptions provided in (a)(7) and (b)(2) of this

1 section and AS 43.56.030(2)(A) and (C) to reduce the applicable tariff;

2 (8) agrees to submit an application under AS 43.82.120;

3 (9) not later than June 30, 2004,

4 (A) submits an application for the grant of a right-of-way lease
5 under AS 38.35; and

6 (B) schedules an open season for the natural gas pipeline so
7 that all potential shippers of North Slope natural gas, whether with respect to
8 the pipeline's initial capacity or its expansion capacity, have a fair and equal
9 opportunity to obtain shipping capacity on the pipeline; and

10 (10) requires that its agents and contractors, the agents and contractors
11 of a person acting under contract, or the agents and contractors of a project sponsor,
12 negotiate to obtain, where possible, a project labor agreement for the employment of
13 laborers and mechanics for the construction of the project.

14 (e) The provisions of (d) of this section do not create or abridge individual
15 rights and do not create a private right of action or claim by any person.

16 * Sec. 10. AS 43.56.030 is amended to read:

17 Sec. 43.56.030. In place of other taxes. Except for those taxes imposed
18 under AS 43.55, the taxes levied or authorized under AS 43.56.010(b) are in place of
19 all other

20 (1) [ALL OTHER] ad valorem taxes or other taxes imposed by a
21 municipality on property subject to tax under this chapter or exempted from taxation
22 by AS 43.56.020; and

23 (2) [ALL OTHER] taxes imposed by a municipality on or with respect
24 to the property subject to tax under this chapter or exempted from taxation by
25 AS 43.56.020, including, but not limited to,

26 (A) taxes on the retail sale or use of the property except for the
27 retail sales tax on the first \$1,000 of each sale; however, the exception for
28 retail sales or use taxes on the first \$1,000 of each sale does not apply to a
29 retail sale or use involving property used or committed by contract or
30 other agreement for use in the development, construction, operation, or
31 maintenance of an Alaska North Slope natural gas project;

1 (B) taxes on the sale or use of gas or unrefined oil;

2 (C) taxes on the sale or use of services used in or associated
3 with the property or in its maintenance or operation except for the sales tax on
4 the first \$1,000 of each sale; however, the exception for retail sales or use
5 taxes on the first \$1,000 of each sale does not apply to a retail sale or use
6 involving services used in or associated with the property used or
7 committed by contract or other agreement for use in the development,
8 construction, operation, or maintenance of an Alaska North Slope natural
9 gas project;

10 (D) taxes on or measured by gross or net income from the
11 property, including income from the exploration for, production of, or pipeline
12 transportation of gas or unrefined oil or property; and

13 (E) any license, excise, fee, charge, or other tax on or
14 pertaining to the property or services.

15 * Sec. 11. AS 43.56.210(2) is amended to read:

16 (2) "construction commencement date" means, for property subject
17 to tax under this chapter used in the exploration for, production of, or pipeline
18 transportation of unrefined oil through a facility the construction of which was
19 began before April 1, 1974, the earlier of April 1, 1974, or the date the following
20 occur, and, for all other property subject to tax under this chapter, including
21 property used in the pipeline transportation of North Slope natural gas through
22 an Alaska North Slope natural gas project, the date on which all of the following
23 have occurred:

24 (A) there has been issued to the owner or an agent of the owner
25 right-of-way permits, leases, and title and other rights in land, and other
26 approvals, permits, licenses, and certificates, by federal, state, and local
27 agencies that a reasonable and prudent person would consider adequate to
28 commence construction of the facilities in the expectation that all other
29 approvals, permits, licenses, and certificates necessary for the completion of
30 facilities will be obtained;

31 (B) all approvals, permits, licenses, and certificates are in full

1 force and effect, unrevoked and without any modification that might jeopardize
2 the completion or continued construction of the facilities; and

3 (C) no order, judgment, decree, determination, or award of a
4 federal, state, or local court or administrative or regulatory agency enjoining,
5 either temporarily or permanently, the construction or the continuation of
6 construction of the facilities is in effect;

7 * Sec. 12. AS 43.56.210 is amended by adding a new paragraph to read:

8 (9) "Alaska North Slope natural gas project" means a natural gas
9 pipeline that originates in the Prudhoe Bay area of the North Slope of Alaska and that
10 generally follows a route that parallels the Trans Alaska Pipeline System and the
11 Alaska Highway to the Canadian border or, for liquefied natural gas, to tidewater; the
12 term

13 (A) includes those portions of any gas processing facilities
14 described in this paragraph that are used to remove carbon dioxide or other
15 nonhydrocarbon impurities and to boost pressure, for the purpose of
16 conditioning gas for immediate shipment in the pipeline described in this
17 paragraph;

18 (B) does not include facilities, equipment, or other property

19 (i) to the extent or in the proportion they are used for
20 the purpose of manufacturing natural gas liquids or miscible injectant;
21 or

22 (ii) upon which taxes imposed by this chapter have been
23 paid before the effective date of this paragraph.

24 * Sec. 13. AS 43.82.100 is amended to read:

25 Sec. 43.82.100. **Qualified project.** Based on information available to the
26 commissioner, the commissioner may determine that a proposal for new investment is
27 a qualified project under this chapter only if the project

28 (1) is a project that principally involves

29 (A) the processing and transportation of natural gas by
30 pipeline to one or more markets outside the state, including an Alaska
31 North Slope natural gas project as that term is defined in AS 38.35.240;

1 (B) [FOR] the export of liquefied natural gas from the state to
2 one or more other states or countries; or

3 (C) the development of discrete facilities, or portions of
4 discrete facilities, that are necessary to produce, gather, process,
5 condition, compress, or distribute natural gas, to be transported to, by, or
6 from a pipeline or liquefied natural gas project described in (A) or (B) of
7 this paragraph;

8 (2) would produce at least 500,000,000,000 cubic feet of stranded gas
9 within 20 years from the commencement of commercial operations; and

10 (3) is capable, subject to applicable commercial regulation and
11 technical and economic considerations, of making gas available to meet the reasonably
12 foreseeable demand in this state for gas within the economic proximity of the project.

13 * Sec. 14. AS 43.82.110 is amended to read:

14 Sec. 43.82.110. **Qualified sponsor or qualified sponsor group.** The
15 commissioner may determine that a person or group is a qualified sponsor or qualified
16 sponsor group if the person or a member of the group

17 (1) intends to own an equity interest in a qualified project, intends to
18 commit gas that it owns to a qualified project, or holds the permits that the department
19 determines are essential to construct and operate a qualified project; and

20 (2) meets one or more of the following criteria:

21 (A) owns a working interest in at least 10 percent of the
22 stranded gas proposed to be developed by a qualified project;

23 (B) has the right to purchase at least 10 percent of the stranded
24 gas proposed to be developed by a qualified project;

25 (C) has the right to acquire, control, or market at least 10
26 percent of the stranded gas proposed to be developed by a qualified project;

27 (D) has a net worth equal to at least 33 percent of the estimated
28 cost of constructing a qualified project;

29 (E) has an unused line of credit equal to at least 25 percent of
30 the estimated cost of constructing a qualified project;

31 (F) has entered into a contract or binding precedent

1 agreement to provide gathering, processing, conditioning, compression,
2 transportation, or distribution services for at least 10 percent of the
3 stranded gas proposed to be developed by a qualified project.

4 * Sec. 15. AS 43.82.120 is amended by adding a new subsection to read:

5 (d) For purposes of an application for facilities described in
6 AS 43.82.100(1)(C) that relate to a project, one or more qualified sponsors or qualified
7 sponsor groups may file separate applications for any discrete facility or portion of a
8 discrete facility of a project.

9 * Sec. 16. AS 43.82.140 is amended by adding a new subsection to read:

10 (d) For purposes of an application for facilities described in
11 AS 43.82.100(1)(C) that relate to a project for which application is made under
12 AS 43.82.120(d), the commissioner and the commissioner of natural resources may
13 review and approve applications from one or more qualified sponsors or qualified
14 sponsor groups for any discrete facility or portion of a discrete facility of a project if
15 the commissioner or the commissioner of natural resources finds that the facility or
16 portion of the facility is a necessary part of a comprehensive transportation system
17 described in AS 43.82.100(1)(A) or (B).

18 * Sec. 17. AS 43.82.170 is amended to read:

19 **Sec. 43.82.170. Application deadline.** The commissioner of revenue or the
20 commissioner of natural resources may not act on an application for a contract
21 submitted under AS 43.82.120 unless the application is received by the Department of
22 Revenue no later than June 1, 2003 [JUNE 30, 2001].

23 * Sec. 18. AS 44.33 is amended by adding a new section to read:

24 **Article 5A. Natural Gas Pipeline Impact Assistance.**

25 **Sec. 44.33.440. Natural gas pipeline impact assistance.** (a) It is the
26 intention of the legislature to provide temporary emergency financial assistance to
27 municipalities for the purpose of meeting certain extraordinary operating and capital
28 improvement expenditures necessitated by population growth resulting from natural
29 gas pipeline development construction. It is the further intention of the legislature that
30 the state respond promptly to the needs of municipalities that are related to the effect
31 of natural gas pipeline development.

1 (b) Subject to legislative appropriations for the purpose, the department may
2 make grants to a municipality that is affected by natural gas pipeline development,
3 demonstrating extraordinary municipal and educational operating expenditures that are
4 beyond its reasonable capability to meet from growth in receipts from current
5 municipal revenue sources. Grants made under this subsection may be expended only
6 for municipal and educational operating services.

7 (c) Grants made under this section may not be used directly or indirectly to
8 reduce current municipal tax rates.

9 (d) Where the impact of rapid, sudden population growth threatens to develop
10 open space land that otherwise would remain free of urban development, the
11 department may make grants to a municipality affected by natural gas pipeline
12 development, contributing an equal amount for the acquisition or improvement of
13 open space or greenbelt lands, recreation facilities, parks, or wildlife refuges. A grant
14 under this subsection may exceed \$500,000. A grant made under this subsection may
15 not be used directly or indirectly to reduce current municipal tax rates or to retire
16 existing bonded indebtedness.

17 (e) Grants under this section may be made only upon application by the
18 municipality to the department. Each grant application must state the intended use for
19 which the grant will be expended.

20 (f) A municipality receiving grants under this section shall

21 (1) maintain a separate account for the grants received under this
22 section;

23 (2) provide for an annual independent audit of the separate account for
24 grants received under this section; and

25 (3) submit a copy of the independent audit report to the department.

26 (g) The department may adopt regulations necessary to carry out the purpose
27 of this section.

28 (h) In this section,

29 (1) "department" means the Department of Community and Economic
30 Development;

31 (2) "municipality" means a home rule or general law city or borough,

1 including but not limited to a unified municipality;

2 (3) "operating expenditures" means personal services, contractual
3 services, travel, commodities, and up to \$20,000 for each item of equipment, except
4 that the term does not include any of these items if the item is part of a capital
5 improvement expenditure; relocatable classrooms necessary for expanded school
6 enrollment are not subject to the \$20,000 limitation.

7 * **Sec. 19.** The uncodified law of the State of Alaska is amended by adding a new section to
8 read:

9 **LEGISLATIVE AUTHORIZATION AND APPROVAL.** (a) Subject to the
10 requirements of AS 42.40.630(b), enacted by sec. 5 of this Act, the Alaska Railroad
11 Corporation is authorized to issue bonds under the power granted to it in AS 42.40 to finance
12 the construction of a natural gas pipeline and related facilities for the transportation of natural
13 gas recovered from the North Slope of this state. The maximum principal amount of bonds
14 that the Alaska Railroad Corporation may issue under this section is \$17,000,000,000. The
15 Alaska Railroad Corporation may issue the bonds in a single issuance or in several issuances,
16 without limitation as to number of issuances or timing, and as the Alaska Railroad
17 Corporation determines best furthers the purpose of financing the gas pipeline and related
18 facilities described in this section. The Alaska Railroad Corporation shall negotiate with the
19 producers of the gas or with one or more other entities as the Alaska Railroad Corporation
20 considers appropriate, and shall enter into agreements with those producers or one or more
21 other entities to provide revenue sufficient to accomplish the purposes described in
22 AS 42.40.630.

23 (b) This section constitutes the approval required by AS 42.40.285 for the issuance of
24 the bonds described in this section.

25 * **Sec. 20.** The uncodified law of the State of Alaska is amended by adding a new section to
26 read:

27 **RETROACTIVITY.** Sections 13 - 17 of this Act are retroactive to July 1, 2001.

28 * **Sec. 21.** Sections 7 - 12 and 18 of this Act take effect January 1, 2003.

29 * **Sec. 22.** Except as provided in sec. 21 of this Act, this Act takes effect immediately under
30 AS 01.10.070(c).

WORK DRAFT

WORK DRAFT

WORK DRAFT

22-LS1651VK
Chenoweth
5/10/02

Kottmann
5.10.02

CS FOR HOUSE BILL NO. 519(2d RLS)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY THE HOUSE RULES COMMITTEE

**Offered:
Referred:**

Sponsor(s): HOUSE RULES COMMITTEE

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing priority treatment under the Right-of-Way Leasing Act for an
2 Alaska North Slope natural gas project and limiting judicial review of action under that
3 Act relating to that project; authorizing the Alaska Railroad Corporation to provide
4 financing for the acquisition, construction, improvement, maintenance, equipping, or
5 operation of facilities for the transportation by others of natural gas resources within
6 and outside the state and to issue its bonds to finance those facilities; relating to state
7 and municipal property taxes for an Alaska North Slope natural gas project during
8 construction; adding a property tax repayment surcharge levied under the oil and gas
9 exploration, production, and pipeline transportation tax and relating to the levy of the
10 surcharge and to the accounting for foregone tax revenue under that tax and surcharge;
11 defining the scope of that project; providing, through the Department of Community
12 and Economic Development, emergency financial assistance for municipalities affected

L

WORK DRAFT

WORK DRAFT

22-LS1651\K

1 by natural gas development; expanding the scope for the kinds of gas development
2 projects that may become qualified projects under the Alaska Stranded Gas
3 Development Act, amending the definitions of 'qualified sponsor' and 'qualified sponsor
4 group' under that Act, extending the deadline for submitting applications under that
5 Act, and modifying the conditions under which an application made under that Act may
6 be considered; and providing for an effective date."

7 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

8 * Section 1. The uncodified law of the State of Alaska is amended by adding a new section
9 to read:

10 **FINDINGS AND INTENT.** The legislature finds that

11 (1) a vast quantity of gas in Alaska is currently stranded from commercial
12 development, in part due to the cost associated with providing access to markets for that gas;
13 the Alaska North Slope has the largest known discovered natural gas resources, estimated to
14 be 35 trillion cubic feet, in the United States and has undiscovered gas resources estimated to
15 be in excess of 100 trillion cubic feet;

16 (2) demand for natural gas in the lower 48 states is expected to experience
17 record growth; the lower 48 states have an inadequate resource base to meet this expected
18 demand, and there is an urgency to make an Alaska natural gas pipeline project move forward
19 to fill this gap with North American gas rather than with gas from uncertain sources overseas;

20 (3) it is important for the United States to have a reliable and affordable source
21 of domestic natural gas for energy for its economy, for the well-being of its citizens, for the
22 growth of its businesses, and for the national security;

23 (4) the North Slope of Alaska is one of the few known locations in the United
24 States that can supply significant natural gas supplies to the lower 48 states for years to come;

25 (5) during the past three decades, several companies and entities have studied
26 different ways to commercialize Alaska North Slope gas and have been unsuccessful in
27 identifying an economic project; most recently, the three major producers, through their
28 Alaska Gas Producers Pipeline Team, have studied a southern route approximately following
29 a route along the Trans Alaska Pipeline System from Pump Station One to Delta Junction and

CSHB 519(2d RLS)

-2-

New Text Underlined (DELETED TEXT BRACKETED)

WORK DRAFT

WORK DRAFT

22-LS1651\K

1 along the Alaska Highway through Alaska and Canada to the lower 48 states and a northern
2 route off the shore of the Arctic National Wildlife Refuge in the Beaufort Sea, and have
3 concluded that neither is sufficiently economic, given the magnitude of the risks associated
4 with the project; however, at least one producer has indicated a willingness to proceed further
5 if federal and state enabling legislation with provisions to mitigate long-term natural gas price
6 risks and for fiscal certainty and incentives is enacted;

7 (6) the major producers have proposed new federal enabling legislation that
8 they believe will expedite the construction and operation of a natural gas pipeline from the
9 North Slope to the lower 48 states;

10 (7) in addition to the state's receipt of revenue from taxes and royalties,
11 Alaskans will benefit from the commercialization of Alaska North Slope natural gas through
12 opportunities for in-state use of the natural gas and for participation by Alaskans in
13 construction, maintenance, and operation of a natural gas pipeline project;

14 (8) because of the high cost of providing access to markets for Alaska North
15 Slope gas, exploration efforts on the North Slope have historically focused on oil; recently,
16 some companies have expressed interest in gas exploration; if the infrastructure needed to
17 provide access to market for Alaska North Slope gas were available, new gas exploration
18 efforts might be initiated on the Alaska North Slope and in other basins that currently remain
19 largely unexplored for oil and gas; it is vital to the State of Alaska that there be continued and
20 robust exploration and development of natural gas resources on the Alaska North Slope;

21 (9) Alaskans need a portion of the gas from a natural gas pipeline project for
22 in-state use; however, it is unlikely that markets will develop within the state that would need
23 more than a relatively small portion of the volume of gas already discovered on the Alaska
24 North Slope; it is vital for economic development that Alaska communities and businesses
25 have access under fair and reasonable terms to the pipeline for in-state use of Alaska North
26 Slope natural gas;

27 (10) the construction and operation of a natural gas pipeline in the state and
28 the sale of Alaska North Slope gas is critical to the health and welfare of the state;

29 (11) for a natural gas pipeline project to become economically viable and
30 competitive, the estimated costs of constructing the project and the associated financial risk
31 must be reduced significantly; changes in the local, state, and federal tax structure may also be

WORK DRAFT

WORK DRAFT

22-LS1651\K

1 necessary to make commercialization of the gas resources economically viable by, in part,
2 structuring tax and royalty incentives related to the project and providing as much clarity and
3 certainty as possible regarding the taxes that would apply to a project throughout its life;

4 (12) art. IX, sec. 4, Constitution of the State of Alaska, empowers the
5 legislature to create tax exemptions by general law, and the creation of tax exemptions to
6 make Alaska North Slope gas commercially viable and competitive is consistent with the
7 legislature's responsibility under art. VIII, sec. 2, Constitution of the State of Alaska;

8 (13) good faith efforts by producers and other companies engaged in the
9 design, construction, and operation of the natural gas pipeline voluntarily to provide
10 employment opportunities for Alaska residents and opportunities for Alaska businesses are in
11 the long-term interests of the state;

12 (14) there has been a history of costly disputes between producers of oil and
13 the state over the determination of the production taxes due for oil produced and sold, in part
14 because of disputes over the definition of terms pertinent to the calculation of the tax;

15 (15) it is in the state's best interest to provide clarity and certainty to the
16 process of determining a producer's tax and royalty liability, AS 43.82 (Alaska Stranded Gas
17 Development Act) provides, among other provisions, in AS 43.82.020, 43.82.200, and
18 43.82.210, mechanisms for the state and the sponsor of a North Slope natural gas pipeline
19 project to negotiate a contract that could provide that clarity and certainty and resolve other
20 important issues, including accommodating the interests of affected municipalities.

21 * Sec. 2. The uncodified law of the State of Alaska is amended by adding a new section to
22 read:

23 FINDINGS, INTENT, AND PURPOSE OF SECTIONS 4 - 6 AND 19. (a) The
24 Alaska State Legislature finds that

25 (1) the Alaska Railroad Corporation is uniquely suited to serve essential
26 functions of the state by providing financing for a facility for the transportation of certain
27 natural gas resources located within the state;

28 (2) providing financing for that facility furthers the purposes of both the state
29 and the Alaska Railroad Corporation by assuring that the state's natural gas resources will be
30 transported to their appropriate markets, thus creating revenue for the Alaska Railroad
31 Corporation and for the state and providing employment opportunities for residents of the

CSHB S19(2d RLS)

-4-

New Text Underlined [DELETED TEXT BRACKETED]

WORK DRAFT

WORK DRAFT

22-LS1651K

1 state;

2 (3) the facility also will enhance and improve the state's ability to develop and
3 transport other natural resources of the state, including oil and gas resources located off the
4 North Slope of this state; and

5 (4) these results are essential purposes of the state and the achievement of
6 these purposes is critical to the health and welfare of the state.

7 (b) A purpose of secs. 4 - 6 and 19 of this Act is to clarify the statutory functions and
8 powers of the Alaska Railroad Corporation by expressly including the power to provide
9 financing for transportation facilities as described in those sections of this Act.

10 (c) It is the intent of the legislature that

11 (1) secs. 4 - 6 and 19 of this Act be construed broadly to permit the Alaska
12 Railroad Corporation the greatest flexibility to accomplish the purpose described in (b) of this
13 section within the limitations set out in those sections of this Act; and

14 (2) other provisions of AS 42.40 in existence before the enactment of secs. 4 -
15 6 and 19 of this Act be similarly construed to complement the provisions of this Act.

16 * Sec. 3. AS 38.35 is amended by adding new sections to read:

17 **Sec. 38.35.240. Expeditious priority treatment by state officials and**
18 **agencies in support of development and construction of an Alaska North Slope**
19 **natural gas project under this chapter. (a) In the development and construction of**
20 **an Alaska North Slope natural gas project that requires the grant of a right-of-way**
21 **lease under this chapter, every state official and agency shall give full cooperation to**
22 **the commissioner, or to any official to whom delegation of the authority of the**
23 **commissioner is made by or under law, consistent with the provisions of the law**
24 **administered by the official or agency, by issuing or granting necessary permits,**
25 **certificates, authorizations, and similar actions required to be taken at the earliest**
26 **practicable date, with action to be taken on an expedited basis and, notwithstanding**
27 **any other provision of law, having precedence over any like matter pending before the**
28 **official or agency.**

29 (b) In the commissioner's consideration of an application under this chapter
30 for a lease for the Alaska North Slope natural gas project, the commissioner may limit
31 the scope of review, analysis, and finding for the applicant's proposed lease

WORK DRAFT

WORK DRAFT

22-LS1651K

1 application under this chapter to a particular phase of the project if, in the judgment of
2 the commissioner, the project is capable of proceeding in discrete phases and

3 (1) the uses and activities involving the project on the land for which
4 the approval is to be granted are part of that discrete phase;

5 (2) before the next phase of the project may proceed, the commissioner
6 gives public notice and opportunity for comment about that phase, unless the use or
7 activity to be approved is subject to a consistency determination under AS 46.40 and
8 public notice and the opportunity to comment are provided under AS 46.40.096(o);

9 (3) the commissioner's approval is required before the next phase of
10 the project may proceed; and

11 (4) the commissioner sets out the reasons for proceeding on the
12 application in discrete phases.

13 (c) In this section, "Alaska North Slope natural gas project" means "North
14 Slope natural gas pipeline" as set out in AS 38.35.120(a)(1)(B), including the facilities
15 that are necessary for, and to the extent used for, treating and conditioning the gas to
16 be transported, and the components of the processing plants associated with natural
17 gas conditioning, to be constructed or modified to follow generally a route that
18 parallels the Trans Alaska Pipeline System and the Alaska Highway to the Canadian
19 border, or to tidewater for liquefied natural gas, and any spur lines to serve people in
20 the state, to transport natural gas derived from the area of the state lying north of 64
21 degrees North latitude.

22 ~~Sec. 38.35.245.~~ **Judicial review.** Notwithstanding AS 38.35.200 and
23 notwithstanding any other provision of law, with respect to a decision made or action
24 taken bearing upon the development, construction, and operation of an Alaska North
25 Slope natural gas project, as described in AS 38.35.240, a person may seek judicial
26 review of a decision of the commissioner under AS 38.35.100 or 38.35.240 or of any
27 agency or employee relating to the project only on the grounds provided in
28 AS 38.35.200(b). The claim for judicial review may be brought only within 60 days
29 after the making of the decision or taking of the action.

30 * Sec. 4. AS 42.40.250 is amended by adding a new paragraph to read:

31 (31) provide financing for the acquisition, construction, improvement,

WORK DRAFT

WORK DRAFT

22-LS1651VK

1 maintenance, equipping, and operation of facilities for the transportation of natural gas
2 resources within and outside the state without regard to whether the facilities are or
3 will be owned in whole or in part by the corporation or located on land owned by the
4 corporation.

5 * Sec. 5. AS 42.40.630 is amended by adding new subsections to read:

6 (b) Before issuing bonds to provide the financing described in
7 AS 42.40.250(31) for a facility to be owned in whole or in part by an entity other than
8 the corporation, the corporation shall enter into a contract, lease, or other form of
9 agreement that will, in the judgment of the corporation, provide sufficient
10 consideration to

11 (1) pay the principal of and interest on the bonds as they become due;

12 (2) create and maintain the reserves for the payments that the
13 corporation considers necessary or desirable; and

14 (3) pay all costs necessary to service or additionally secure the bonds,
15 including trustee's fees and bond insurance premiums, unless these costs are to be paid
16 by a party other than the corporation.

17 (c) Before issuing bonds to provide the financing described in
18 AS 42.40.250(31), whether for a facility to be owned by the corporation or for a
19 facility to be owned as described in (b) of this section, the corporation shall obtain the
20 prior approval of the governor.

21 * Sec. 6. AS 42.40 is amended by adding a new section to read:

22 **Sec. 42.40.695. Public purpose of bonds.** Bonds of the corporation issued to
23 finance facilities described in AS 42.40.250(31) are issued by a public corporation and
24 an instrumentality of the state for an essential public and governmental purpose.

25 * Sec. 7. AS 43.56.010(a) is amended to read:

26 (a) Except as provided in (e) and (f) of this section, an [AN] annual tax of
27 20 mills is levied each tax year beginning January 1, 1974, on the full and true value
28 of taxable property taxable under this chapter.

29 * Sec. 8. AS 43.56.010(b) is amended to read:

30 (b) Except as provided in (e) and (f) of this section, a [A] municipality may
31 levy and collect a tax under AS 29.45.080 at the rate of taxation that applies to other

WORK DRAFT

WORK DRAFT

22-LS1651K

1 property taxed by the municipality. The tax shall be levied at a rate no higher than the
2 rate applicable to other property taxable by the municipality. A municipality may not
3 exempt from taxation property authorized to be taxed under this chapter. Exemptions
4 shall be limited to those in AS 29.45.030, 29.45.050, and AS 43.56.020.

5 * Sec. 9. AS 43.56.010 is amended by adding new subsections to read:

6 (e) Beginning on the construction commencement date of an Alaska North
7 Slope natural gas project and continuing through December 31 of the first calendar
8 year after the calendar year in which the Alaska North Slope natural gas project first
9 delivers gas to market, an annual tax of three mills is levied on the full and true value
10 of taxable property used or committed for use on the Alaska North Slope natural gas
11 project if that property was not taxable property under this chapter before the project's
12 construction commencement date. The tax levied under this subsection is in place of
13 all other state and municipal property taxes that may be levied on the property taxed
14 under this subsection.

15 (f) The provisions of (e) of this section apply only if a taxpayer, or a person
16 acting under contract with the taxpayer or the project's sponsor,

17 (1) complies with all relevant requirements of 15 U.S.C. 717z (Natural
18 Gas Act) or 15 U.S.C. 719 - 719o (Alaska Natural Gas Transportation Act of 1976)
19 and regulations of the Federal Energy Regulatory Commission, as applicable to the
20 project;

21 (2) complies with all valid federal, state, and municipal laws relating to
22 hiring Alaska residents and contracting with Alaska businesses to work in the state in
23 the design, construction, and operation of the project to the extent the residents and
24 businesses are available, competitively priced, and qualified, and the taxpayer or
25 project sponsor does not discriminate against Alaska residents or businesses;

26 (3) advertises for available positions in newspapers in the location
27 where the work is to be performed and in other publications distributed throughout the
28 state, including in rural areas, and uses Alaska job service organizations located
29 throughout the state and not just in the location where the work is to be performed in
30 order to notify Alaskans of work opportunities on the project;

31 (4) within the constraints of law, encourages the owner's contractors to

WORK DRAFT

WORK DRAFT

22-LS1651K

1 train and subsequently to hire state residents consistent with (2), (3), and (5) of this
2 subsection;

3 (5) recruits, within the constraints of law, and employs qualified state
4 residents as workers on available jobs; the owner shall prepare and submit to the
5 commissioner of labor and workforce development

6 (A) on an annual basis, a report that sets out in detail the
7 specific measures that the owner and the owner's contractors have taken or are
8 planning to take

9 (i) to recruit qualified state residents for available jobs
10 and that describes job training opportunities; and

11 (ii) to use Alaska businesses;

12 (B) on a quarterly basis, using state data, a report concerning
13 the use of state residents, including the number of residents hired or employed
14 during the previous period;

15 (6) makes, as permitted by law, reasonable efforts

16 (A) to employ Alaska firms that are available, competitively
17 priced, and qualified to perform engineering and construction services; and

18 (B) to fabricate or manufacture in the state needed gas
19 production and pipeline modules and other facilities;

20 (7) agrees to apply, after the project is placed in service, and does
21 apply the full amount of the tax reduction provided in (e) of this section to reduce the
22 applicable tariff;

23 (8) agrees to submit an application under AS 43.82.120; the
24 application must contain or include a proposed project plan that describes satisfactory
25 methods and terms for accommodating reasonably foreseeable demand for natural gas
26 in this state within economic proximity of the project during the term of a proposed
27 contract to be entered into under AS 43.82, including proposed expansion rules;

28 (9) not later than June 30, 2004,

29 (A) submits an application for the grant of a right-of-way lease
30 under AS 38.35; and

31 (B) schedules an open season for the natural gas pipeline so

WORK DRAFT

WORK DRAFT

22-LS1651K

1 that all potential shippers of North Slope natural gas, whether with respect to
2 the pipeline's initial capacity or its expansion capacity, have an opportunity to
3 obtain shipping capacity on the pipeline without undue discrimination or
4 preference; and

5 (10) requires that its agents and contractors, the agents and contractors
6 of a person acting under contract, or the agents and contractors of a project sponsor,
7 negotiate to obtain, where possible, a project labor agreement for the employment of
8 laborers and mechanics for the construction of the project.

9 (g) The provisions of (f) of this section do not create or abridge individual
10 rights and do not create a private right of action or claim by any person.

11 * Sec. 10. AS 43.56.210(2) is amended to read:

12 (2) "construction commencement date" means, for property subject
13 to tax under this chapter used in the exploration for, production of, or pipeline
14 transportation of unrefined oil through a facility the construction of which was
15 begun before April 1, 1974, the earlier of April 1, 1974, or the date the following
16 occur, and, for all other property subject to tax under this chapter, including
17 property used in the pipeline transportation of North Slope natural gas through
18 an Alaska North Slope natural gas project, the date on which all of the following
19 have occurred:

20 (A) there has been issued to the owner or an agent of the owner
21 right-of-way permits, leases, and title and other rights in land, and other
22 approvals, permits, licenses, and certificates, by federal, state, and local
23 agencies that a reasonable and prudent person would consider adequate to
24 commence construction of the facilities in the expectation that all other
25 approvals, permits, licenses, and certificates necessary for the completion of
26 facilities will be obtained;

27 (B) all approvals, permits, licenses, and certificates are in full
28 force and effect, unrevoked and without any modification that might jeopardize
29 the completion or continued construction of the facilities; and

30 (C) no order, judgment, decree, determination, or award of a
31 federal, state, or local court or administrative or regulatory agency enjoining,

WORK DRAFT

WORK DRAFT

22-LS1651K

1 either temporarily or permanently, the construction or the continuation of
2 construction of the facilities is in effect;

3 * Sec. 11. AS 43.56.210 is amended by adding new paragraphs to read:

4 (9) "Alaska North Slope natural gas project" means a natural gas
5 pipeline that originates in the Prudhoe Bay area of the North Slope of Alaska and that
6 generally follows a route that parallels the Trans Alaska Pipeline System and the
7 Alaska Highway to the Canadian border or, for liquefied natural gas, to tidewater; the
8 term

9 (A) includes those portions of any gas processing facilities
10 described in this paragraph that are used to remove carbon dioxide or other
11 nonhydrocarbon impurities and to boost pressure, for the purpose of
12 conditioning gas for immediate shipment in the pipeline described in this
13 paragraph;

14 (B) does not include facilities, equipment, or other property
15 (i) to the extent or in the proportion they are used for
16 the purpose of manufacturing natural gas liquids or miscible injectant;
17 or

18 (ii) upon which taxes imposed by this chapter have been
19 paid before the effective date of this paragraph.

20 (10) "average monthly price at the AECO C Hub in Alberta, Canada"
21 means the price reported under "Alberta Spot Price - AECO C/N.I.T.(7A),"
22 "US\$/MMBtu," in the "Canadian Gas Price Reporter," published by Canadian
23 Enerdata Ltd., or, if this price ceases to be reported in that publication or the
24 publication ceases to be published, the price reported in another publication for gas at
25 that location, or at another location with an appropriate price adjustment reflecting the
26 location differential, as the department prescribes by regulation; if the price reported is
27 not quoted in United States dollars, the department shall prescribe by regulation the
28 data source and method to be used to convert the reported price into United States
29 dollars; for purposes of this paragraph, "MMBtu" means a quantity of gas having a
30 heating value of 1,000,000 British thermal units.

31 * Sec. 12. AS 43.56 is amended by adding new sections to read:

WORK DRAFT

WORK DRAFT

22-LS1651\K

1 **Article 2. Tax Surcharge for an Alaska North Slope Natural Gas Project.**

2 **Sec. 43.56.300. Tax repayment surcharge for an Alaska North Slope**
3 **natural gas project.** (a) An Alaska North Slope natural gas project that was taxed
4 under AS 43.56.010(e) but is no longer being taxed under that subsection is subject to
5 a surcharge equal to the lesser of

6 (1) 10 mills on the full and true value of the project times a fraction,
7 the numerator of which is the number of months during the previous year when the
8 average monthly price at the AECO C Hub in Alberta, Canada, for natural gas during
9 the month is greater than the base price under AS 43.56.310, as adjusted under
10 AS 43.56.310(b) if applicable, and the denominator of which is 12; or

11 (2) the sum of the amount determined under AS 43.56.320(b) and the
12 amount determined under AS 43.56.320(c), minus the cumulative amount collected
13 under this subsection.

14 (b) The surcharge imposed by (a) of this section is in addition to and shall be
15 paid in the same manner as the tax imposed by this chapter,

16 (c) Levy and collection of the surcharge levied under (a) of this section is
17 suspended beginning with the year in which the commissioner finds that the
18 cumulative amount collected under (a) of this section equals or exceeds an amount
19 equal to the sum of the amount determined under AS 43.56.320(b) plus the amount
20 determined under AS 43.56.320(c).

21 (d) The property tax repayment surcharge account is established in the general
22 fund. The surcharge collected under this section shall be deposited in the property tax
23 repayment surcharge account.

24 **Sec. 43.56.310. Base price for surcharge; adjustment for inflation.** (a) For
25 purposes of AS 43.56.300, the base price is \$4.88 per MMBtu of gas at the AECO C
26 Hub in Alberta, Canada, adjusted for inflation as provided in (b) of this section.

27 (b) To adjust for inflation for a year beginning after January 1, 2010, the base
28 price set in (a) of this section shall be multiplied by the inflation adjustment factor for
29 that calendar year, determined under 26 U.S.C. 43(b)(3)(B) (Internal Revenue Code),
30 as amended, substituting "calendar year ending before the later of January 1, 2010, or
31 the initial date for the transportation of Alaska natural gas" for "1990."

WORK DRAFT

WORK DRAFT

22-LS1651\K

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

Sec. 43.56.320. Accounting for foregone tax revenue. (a) Each year in which property used or committed for use on the Alaska North Slope natural gas project is taxed under AS 43.56.010(e), the department shall determine the amount of foregone tax revenue for the state and each affected municipality.

(b) For purposes of this section, foregone tax revenue under AS 43.56.010(b) for a municipality or combination of municipalities occupying the same geographical area in whole or in part, is the lesser of

(1) the product of the municipal mill rate levied that year times the full and true value of the property subject to tax under AS 43.56.010(e); or

(2) the product of a 20 mill rate times the full and true value of the property subject to tax under AS 43.56.010(e).

(c) For purposes of this section, foregone tax revenue under AS 43.56.010(a) and (d) is the product of a 17 mill rate times the full and true value of the property subject to tax under AS 43.56.010(e), less the total amount determined under (b) of this section.

(d) The department shall include property taxed under AS 43.56.010(e) on the annual assessment roll as provided in AS 43.56.090. A taxpayer or a municipality may appeal from the assessment as provided in AS 43.56.110 - 43.56.130.

Sec. 43.56.330. Distribution of surcharge. (a) The commissioner shall report to the legislature each year the total amount of foregone property tax revenue for each affected municipality and for the state as determined under AS 43.56.320, less any appropriations to the affected municipality or the state from the property tax repayment surcharge account established in AS 43.56.300(d).

(b) Subject to appropriation by the legislature, each fiscal year, the commissioner shall pay to each affected municipality and the general fund a pro rata share of the amount deposited into the account established in AS 43.56.300(d) during the previous fiscal year. The pro rata share shall be based on the amount determined under (a) of this section.

* **Sec. 13.** AS 43.82.100 is amended to read:

Sec. 43.82.100. Qualified project. Based on information available to the commissioner, the commissioner may determine that a proposal for new investment is

WORK DRAFT

WORK DRAFT

22-LS1651AK

1 a qualified project under this chapter only if the project

2 (1) is a project that principally involves

3 (A) the processing and transportation of natural gas by
4 pipeline to one or more markets outside the state, including an Alaska
5 North Slope natural gas project as that term is defined in AS 38.35.240;

6 (B) [FOR] the export of liquefied natural gas from the state to
7 one or more other states or countries; or

8 (C) the development of discrete facilities, or portions of
9 discrete facilities, that are necessary to produce, gather, process,
10 condition, compress, or distribute natural gas, to be transported to, by, or
11 from a pipeline or liquefied natural gas project described in (A) or (B) of
12 this paragraph;

13 (2) would produce at least 500,000,000,000 cubic feet of stranded gas
14 within 20 years from the commencement of commercial operations; and

15 (3) is capable, subject to applicable commercial regulation and
16 technical and economic considerations, of making gas available to meet the reasonably
17 foreseeable demand in this state for gas within the economic proximity of the project.

18 * Sec. 14. AS 43.82.110 is amended to read:

19 **Sec. 43.82.110. Qualified sponsor or qualified sponsor group.** The
20 commissioner may determine that a person or group is a qualified sponsor or qualified
21 sponsor group if the person or a member of the group

22 (1) intends to own an equity interest in a qualified project, intends to
23 commit gas that it owns to a qualified project, or holds the permits that the department
24 determines are essential to construct and operate a qualified project; and

25 (2) meets one or more of the following criteria:

26 (A) owns a working interest in at least 10 percent of the
27 stranded gas proposed to be developed by a qualified project;

28 (B) has the right to purchase at least 10 percent of the stranded
29 gas proposed to be developed by a qualified project;

30 (C) has the right to acquire, control, or market at least 10
31 percent of the stranded gas proposed to be developed by a qualified project;

WORK DRAFT

WORK DRAFT

22-LS1651K

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

(D) has a net worth equal to at least 33 percent of the estimated cost of constructing a qualified project;

(E) has an unused line of credit equal to at least 25 percent of the estimated cost of constructing a qualified project;

(F) has entered into a contract or binding precedent agreement to provide gathering, processing, conditioning, compression, transportation, or distribution services for at least 10 percent of the stranded gas proposed to be developed by a qualified project.

* Sec. 15. AS 43.82.120 is amended by adding a new subsection to read:

(d) For purposes of an application for facilities described in AS 43.82.100(1)(C) that relate to a project, one or more qualified sponsors or qualified sponsor groups may file separate applications for any discrete facility or portion of a discrete facility of a project.

* Sec. 16. AS 43.82.140 is amended by adding a new subsection to read:

(d) For purposes of an application for facilities described in AS 43.82.100(1)(C) that relate to a project for which application is made under AS 43.82.120(d), the commissioner and the commissioner of natural resources may review and approve applications from one or more qualified sponsors or qualified sponsor groups for any discrete facility or portion of a discrete facility of a project if the commissioner or the commissioner of natural resources finds that the facility or portion of the facility is a necessary part of a comprehensive transportation system described in AS 43.82.100(1)(A) or (B).

* Sec. 17. AS 43.82.170 is amended to read:

Sec. 43.82.170. Application deadline. The commissioner of revenue or the commissioner of natural resources may not act on an application for a contract submitted under AS 43.82.120 unless the application is received by the Department of Revenue no later than June 1, 2003 [JUNE 30, 2001].

* Sec. 18. AS 44.33 is amended by adding a new section to read:

Article 5A. Natural Gas Pipeline Impact Assistance.

Sec. 44.33.440. Natural gas pipeline impact assistance. (a) It is the intention of the legislature to provide temporary emergency financial assistance to

WORK DRAFT

WORK DRAFT

22-LS1651VK

1 municipalities for the purpose of meeting certain extraordinary operating and capital
2 improvement expenditures necessitated by population growth resulting from natural
3 gas pipeline development construction. It is the further intention of the legislature that
4 the state respond promptly to the needs of municipalities that are related to the effect
5 of natural gas pipeline development.

6 (b) Subject to legislative appropriations for the purpose, the department may
7 make grants to a municipality that is affected by natural gas pipeline development,
8 demonstrating extraordinary municipal and educational operating expenditures that are
9 beyond its reasonable capability to meet from growth in receipts from current
10 municipal revenue sources. Grants made under this subsection may be expended only
11 for municipal and educational operating services.

12 (c) Grants made under this section may not be used directly or indirectly to
13 reduce current municipal tax rates.

14 (d) Where the impact of rapid, sudden population growth threatens to develop
15 open space land that otherwise would remain free of urban development, the
16 department may make grants to a municipality affected by natural gas pipeline
17 development, contributing an equal amount for the acquisition or improvement of
18 open space or greenbelt lands, recreation facilities, parks, or wildlife refuges. A grant
19 under this subsection may exceed \$500,000. A grant made under this subsection may
20 not be used directly or indirectly to reduce current municipal tax rates or to retire
21 existing bonded indebtedness.

22 (e) Grants under this section may be made only upon application by the
23 municipality to the department. Each grant application must state the intended use for
24 which the grant will be expended.

25 (f) A municipality receiving grants under this section shall

26 (1) maintain a separate account for the grants received under this
27 section;

28 (2) provide for an annual independent audit of the separate account for
29 grants received under this section; and

30 (3) submit a copy of the independent audit report to the department.

31 (g) The department may adopt regulations necessary to carry out the purpose

WORK DRAFT

WORK DRAFT

22-LS1651K

1 of this section.

2 (h) In this section,

3 (1) "department" means the Department of Community and Economic
4 Development;

5 (2) "municipality" means a home rule or general law city or borough,
6 including but not limited to a unified municipality;

7 (3) "operating expenditures" means personal services, contractual
8 services, travel, commodities, and up to \$20,000 for each item of equipment, except
9 that the term does not include any of these items if the item is part of a capital
10 improvement expenditure; relocatable classrooms necessary for expanded school
11 enrollment are not subject to the \$20,000 limitation.

12 * Sec. 19. The uncodified law of the State of Alaska is amended by adding a new section to
13 read:

14 LEGISLATIVE AUTHORIZATION AND APPROVAL. (a) Subject to the
15 requirements of AS 42.40.630(b), enacted by sec. 5 of this Act, the Alaska Railroad
16 Corporation is authorized to issue bonds under the power granted to it in AS 42.40 to finance
17 the construction of a natural gas pipeline and related facilities for the transportation of natural
18 gas recovered from the North Slope of this state. The maximum principal amount of bonds
19 that the Alaska Railroad Corporation may issue under this section is \$17,000,000,000. The
20 Alaska Railroad Corporation may issue the bonds in a single issuance or in several issuances,
21 without limitation as to number of issuances or timing, and as the Alaska Railroad
22 Corporation determines best furthers the purpose of financing the gas pipeline and related
23 facilities described in this section. The Alaska Railroad Corporation shall negotiate with the
24 producers of the gas or with one or more other entities as the Alaska Railroad Corporation
25 considers appropriate, and shall enter into agreements with those producers or one or more
26 other entities to provide revenue sufficient to accomplish the purposes described in
27 AS 42.40.630.

28 (b) This section constitutes the approval required by AS 42.40.285 for the issuance of
29 the bonds described in this section.

30 * Sec. 20. The uncodified law of the State of Alaska is amended by adding a new section to
31 read:

WORK DRAFT

WORK DRAFT

22-LS1651K

- 1 **RETROACTIVITY.** Sections 13 - 17 of this Act are retroactive to July 1, 2001.
- 2 * **Sec. 21.** Sections 7 - 12 and 18 of this Act take effect January 1, 2003.
- 3 * **Sec. 22.** Except as provided in sec. 21 of this Act, this Act takes effect immediately under
- 4 AS 01.10.070(c).

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

400 WILLOUGHBY AVENUE
JUNEAU, ALASKA 99801-1796
PHONE: (907) 465-2400
FAX: (907) 465-3886

550 WEST 7TH AVENUE, SUITE 1400
ANCHORAGE, ALASKA 99501-3650
PHONE: (907) 269-8431
FAX: (907) 269-8918

April 30, 2002

Pete Kott
Alaska State Legislature
State Capitol (MS 3100)
Juneau, Alaska 99801-1182

Dear Representative Kott:

I write regarding the Knowles-Ulmer administration's recommendations for changes in House Bill 519, relating to gasoline tax exemptions, currently making its way through the state House of Representatives. As you know, in its testimony to three House committees the Administration has recommended the negotiated framework of the Stranded Gas Development Act (enacted HB 393) for possible tax and royalty incentives for an Alaska natural gas pipeline. We continue to believe that process is the most appropriate for analyzing economic needs for incentives and to secure actions and commitments from a gasoline sponsor that would be of interest to the state.

However, the Legislature is considering a direct, up-front grant of a property tax exemption to provide an incentive to advance a gasoline project. Property taxes have long been recognized in our studies of gasoline projects as one of the more regressive and perhaps single largest tax disincentive to project economics because the tax is collected during construction before revenues are realized. A property tax exemption would be acceptable with the following amendments to HB 519(FIN). The amendments would narrow the scope and cost of the exemptions but still provide an incentive to project sponsors of approximately \$450 million dollars.

1) Tax exemptions should encourage an early start-up.

If the property tax is to provide any incentive at all to a decision to begin the project, there must be an earlier sunset to take advantage of the sizeable tax exemptions provided. We recommend a sunset of July 2008. This would allow six months of further study, 18 months for permitting, and four years of construction. The Finance version provides a sunset for the tax exemption of 2012 plus a possible extension.

2) Allowable project components receiving exemptions should be narrowed.

HB 519(FIN) has one definition of "project" that applies to project phasing, expedited treatment, and property, sales and use tax exemptions. While the project definition for phasing should be broad to achieve its purposes, for the other two purposes we believe a

narrow definition better protects the state's interests. Consequently, we recommend at least two definitions of the "project;" one in the Right of Way Leasing Act (AS 38.35) and a second in the oil and gas property tax statutes (AS 43.56).

A narrower definition than the one contained in the bill is recommended to ensure that existing facilities and new facilities not directly related to gas development are not inadvertently swept into the property tax exemption.

3) Tax exemptions should be limited to construction phase only.

HB 519(FIN) extends tax exemptions for the period of construction and two years after production begins. The length of this exemption—up to six years—seems excessive and is counter to the incentive philosophy that tax relief is most needed during construction prior to production and the project revenues. Once production begins the project should be prepared to pay normal tax obligations. This exemption length also puts added burden on local governments who face added service costs, particularly during the construction phase.

We recommend that the tax exemption be limited to the construction phase only.

4) Municipal impacts should be addressed.

As discussed above, local governments face added impacts and costs of a project of this size, particularly during construction. It is at least during this time when this bill proposes to remove the possibility of added local revenues through property taxes. Consideration should be given to municipalities, which are being asked to forgo property taxes.

The Stranded Gas Development Act provided a formalized role for affected municipalities and contemplated considering tax repayment methods or impact assistance as part of a negotiated contract in lieu of certain taxes. HB 519(FIN) does authorize an impact fund for providing grants to affected communities. But, this fund is currently a "hollow vessel," and to be effective a dependable fund source is needed.

5) Project labor agreement, Alaska hire and use of Alaskan businesses language should be strengthened.

HB 519(FIN) addresses these issues but could go further. Recognizing limitations under law, we recommend stronger language that has been used in other legislation, including the language relating to ANWR in the recent US House version of the energy bill.

April 30, 2002
Representative Pete Kott
Page 3

We think these amendments will better meet the goals of providing prudent incentives to advance gasline construction and ensuring benefits for Alaskans. Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Pat Pourchot". The signature is fluid and cursive, with a large initial "P" and a checkmark at the end.

Pat Pourchot, Commissioner
Chair, Governor's Gas Cabinet

Cc: Representatives;
Eldon Mulder
Brian Porter
Hugh Fate
Beverly Masek
John Davies
Scott Ogan
Eric Croft
Beth Kerttula
Mary Kapsner
Ethan Berkowitz
Reggie Joule

**Proposed Amendment to HB 519(FIN) Addressing Sunset
and Coverage of Property Tax Exemption**

Make the following changes to Section 7., subsection (7) on Pages 7-8:

- (7) an interest in taxable property that is part of an Alaska North Slope natural gas project, whether or not, under AS 43.82, the project has been determined by the commissioner of revenue to meet the requirements of AS 43.82.100, from the project's construction commencement date, as determined by the commissioner, until [24 full calendar months after] the project is placed in service, but not later than July 1, 2008 [December 31, 2012, but the commissioner shall extend this date after project construction has commenced if that construction is delayed due to litigation or to shortages of supplies for construction that are not due to or under the control of a taxpayer who is a producer, as that term is defined in AS 31.05.170, or not due to or under the control of a project sponsor]; for purposes of this paragraph, "Alaska North Slope natural gas project" has the meaning given in [AS 38.35.240] AS 43.56.210.

**Proposed Amendment to HB 519(FIN) Limiting Tax Exemptions to the Pipeline
and Portions of the Conditioning Plant**

* Sec. _____. AS 43.56.210 is amended by adding a new paragraph to read:

(9) "Alaska North Slope natural gas project" means a natural gas pipeline that originates in the Prudhoe Bay area of the North Slope of Alaska and that generally follows a route parallel to the Trans Alaska Pipeline System and the Alaska Highway to the Canadian border or, for liquefied natural gas, to tidewater; "Alaska North Slope natural gas project"

(A) includes those portions of any gas processing plant immediately adjacent to the pipeline described in this paragraph that are dedicated to the removal of carbon dioxide and other non-hydrocarbon impurities, or to boosting pressure, for the purpose of conditioning gas for immediate shipment in the pipeline described in this paragraph;

(B) does not include facilities, equipment, or other property to the extent or in the proportion they are used for the purpose of manufacturing natural gas liquids or miscible injectant, or for preparing gas or other fluids, for injection into a reservoir;

(C) does not include facilities, equipment, or other property that was subject to the tax imposed by this chapter before the effective date of this paragraph.

Substitute references to AS 38.35.240 with references to AS 43.56.210(9) in the following locations: page 8, line 3; page 10, line 16; page 10, line 25; page 11, line 8.

Delete "the exploration for, production of, or" from page 10, lines 22-23.

Administration 5-4-02

**HB 519(FIN) AMENDMENT
MUNICIPAL REIMBURSEMENT AND IMPACT FUNDING**

- The Amendment would exempt an Alaskan gasline project from the current 20 mill property tax during construction;
- A new temporary 3 mill state property tax would be instituted during the construction period; This would raise approximately \$68 million over the construction period;
- Revenue from this tax would be placed in a natural gas pipeline impact assistance account and used for meeting emergency financial assistance for gasline-related impacts. The grant program currently in the Finance CS would be expanded to include statewide assistance in addition to municipal grants;
- A severance, or production, tax surcharge of \$.06 per Mcf on gas produced for a natural gas project would be levied after the period of construction for the payment of property taxes exempted during the period of construction;
- The surcharge would not take effect unless natural gas prices equalled or exceeded a base price of \$4.88 at the AECO hub in Alberta adjusted for inflation. This parallels the same repayment system contained in the price commodity tax credit provision in the US energy bill pending in the Congress;
- State and local property taxes exempted under this bill would be accounted for and repaid on a pro rata basis from the surcharge tax collected taking into account impact funding received during the time of construction;
- Repayment of \$385 million of exempted property taxes during the period of construction would take approximately five years with prices above the base price;

Administration 5-4-02

HB 519 (FIN) A M E N D M E N T on
Municipal Reimbursement and Impact Funding

1 Page 1, lines 6 - 10:

2 Delete all material and insert "relating to state and municipal property taxes for an
3 Alaska North Slope natural gas project during construction; establishing the natural gas
4 pipeline impact assistance account and authorizing the uses of the account to respond to
5 the needs of the state that are impacted by natural gas development; relating to the
6 property tax repayment surcharge on gas and the distribution of that surcharge;
7 establishing the repayment surcharge account for the deposit of that surcharge; relating to
8 the levy of taxes under AS 43.56 for development of that project and the accounting for
9 foregone tax revenue under AS 43.56;"

10

11 Page 4, line 19:

12 Delete "15"

13 Insert "18"

14

15 Page 5, line 3:

16 Delete "15"

17 Insert "18"

18

19 Page 5, line 7:

20 Delete "15"

21 Insert "18"

22

1 Page 5, line 11:

2 Delete "15"

3 Insert "18"

4

5 Page 7, line 13, through Page 8, line 13:

6 Delete all material and insert:

7 **** Sec. 7. AS 43.55 is amended by adding new sections to read:**

8 **Article 2B. Property Tax Repayment Surcharge on Gas.**

9 **Sec. 43.55.401. Property tax repayment surcharge on gas.** (a) Except as
10 provided in AS 43.55.405, a producer of gas from a lease or property in the state shall
11 pay a property tax repayment surcharge of \$.06 per Mcf of gas that is produced from the
12 lease or property and that enters any intake or tie-in point of an Alaska North Slope
13 natural gas project north of 64 degrees North latitude, less any gas the ownership or right
14 to which is exempt from taxation. All producers under this section are subject to the
15 surcharge regardless of whether the producer owns or owned property subject to the tax
16 under AS 43.56.010(e).

17 (b) The surcharge imposed by (a) of this section is in addition to and shall be paid
18 in the same manner as the tax imposed by AS 43.55.011 - 43.55.150.

19 (c) A producer of gas shall make reports of production in the same manner and
20 under the same penalties as required under AS 43.55.011 - 43.55.150.

21 (d) Imposition and collection of the surcharge levied under (a) of this section is
22 suspended 90 days after the end of the quarter in which the commissioner finds that the
23 amount collected under (a) of this section equals or exceeds an amount equal to the sum
24 of the amount determined under AS 43.56.012(b) plus the amount determined under
25 AS 43.56.012(c).

26 (e) The property tax repayment surcharge account is established in the general
27 fund. The surcharge collected under this section shall be deposited in the property tax
28 repayment surcharge account.

29 **Sec. 43.55.405. Surcharge not imposed.** The surcharge authorized by
30 AS 43.55.401 is not levied in any month in which the average monthly price at the AECO
31 C Hub in Alberta, Canada, for Alaska natural gas is less than the base price. The base

1 price is \$4.88 per Mcf of gas adjusted for inflation as provided in this section. For any
2 year beginning after January 1, 2010, \$4.88 shall be multiplied by the inflation
3 adjustment factor for that calendar year, determined under 26 U.S.C. 43(b)(3)(B)
4 (Internal Revenue Code), as amended, substituting the "calendar year ending before the
5 later of January 1, 2010 or the initial date for the transportation of Alaska natural gas" for
6 "1990."

7 **Sec. 43.55.410. Distribution of surcharge.** (a) The commissioner shall report
8 to the legislature each year the total amount of foregone property tax revenue for each
9 affected municipality and for the state as determined under AS 43.56.012, less any
10 appropriations to the affected municipality or the state from the account established in
11 AS 43.55.401(e).

12 (b) Subject to appropriation by the legislature, each fiscal year the commissioner
13 shall pay to each affected municipality and the general fund a pro rata share of the
14 amount deposited in the account established in AS 43.55.401(e) in the previous fiscal
15 year. The pro rata share shall be based on the amount determined under (a) of this
16 section.

17 **Sec. 43.55.415. Definition.** In AS 43.55.401 - 43.55.415, "Alaska North Slope
18 natural gas project" has the meaning given in AS 38.35.240.

19 * **Sec. 8.** AS 43.56.010(a) is amended to read:

20 (a) Except as provided in (e) of this section, an [AN] annual tax of 20 mills is
21 levied each tax year beginning January 1, 1974, on the full and true value of taxable
22 property taxable under this chapter.

23 * **Sec. 9.** AS 43.56.010(b) is amended to read:

24 (b) Except as provided in (e) of this section, a [A] municipality may levy and
25 collect a tax under AS 29.45.080 at the rate of taxation that applies to other property
26 taxed by the municipality. The tax shall be levied at a rate no higher than the rate
27 applicable to other property taxable by the municipality. A municipality may not exempt
28 from taxation property authorized to be taxed under this chapter. Exemptions shall be
29 limited to those in AS 29.45.030, 29.45.050, and AS 43.56.020.

30 * **Sec. 10.** AS 43.56.010 is amended by adding a new subsection to read:

31 (e) Beginning on the construction commencement date of an Alaska North Slope

1 natural gas project and continuing until December 31 of the year in which the Alaska
2 North Slope natural gas project first delivers gas to market, an annual tax of 3 mills is
3 levied on the full and true value of taxable property used or committed for use on the
4 Alaska North Slope natural gas project, if that property was not taxable property taxable
5 under this chapter before the construction commencement date. The 3 mill tax levied
6 under this subsection is in place of all other state and municipal property taxes that may
7 be levied on the property taxed under this subsection. In this subsection, "Alaska North
8 Slope natural gas project" has the meaning given in AS 38.35.240.

9 * Sec. 11. AS 43.56 is amended by adding a new a section to read:

10 AS 43.56.012. Accounting for foregone tax revenue. (a) Each year in which
11 property used or committed for use on the Alaska North Slope natural gas project is taxed
12 under AS 43.56.010(e), the department shall determine the amount of foregone tax
13 revenue.

14 (b) For purposes of this section, foregone tax revenue under AS 43.56.010(b) for
15 a municipality or combination of municipalities occupying the same geographical area in
16 whole or in part is the lesser of

17 (1) the product of the mill rate levied that year times the full and true
18 value of the property subject to tax under AS 43.56.010(e); or

19 (2) the product of a 20 mill rate times the full and true value of the
20 property subject to tax under AS 43.56.010(e).

21 (c) For purposes of this section, the foregone tax revenue under AS 43.56.010(a)
22 and (d) is the product of a 17 mill rate times the full and true value of the property subject
23 to tax under AS 43.56.010(e) less the total amount determined under (b) of this section.

24 (d) The department shall include property taxed under AS 43.56.010(e) on the
25 annual assessment roll as provided in AS 43.56.090, and a taxpayer or a municipality
26 may appeal from the assessment as provided in AS 43.56.110 - 43.56.130.

27 (e) In this section, "Alaska North Slope natural gas project" has the meaning
28 given in AS 38.35.240."

29

1 Renumber the following bill sections accordingly.

2

3 Page 8, line 15, following "project, the":

4 Delete "exemptions provided in (a)(7) and (b)(2) of this section do"

5 Insert "reduction in tax provided in AS 43.56.010(c) does"

6

7 Page 12, line 13, following "Assistance":

8 Insert "Account"

9

10 Page 12, line 14, following "assistance"

11 Insert "account"

12

13 Page 12, line 16:

14 Delete "municipalities for the purpose of meeting"

15 Insert "meet"

16

17 Page 12, lines 19 - 20:

18 Delete "municipalities that are related to the effect of"

19 Insert "areas of the state that are impacted by the"

20

21 Page 12, following line 20:

22 Insert the following new material:

23 "(b) There is established in the general fund, the natural gas pipeline impact
24 assistance account. The proceeds of the tax levied under AS 43.56.101(e) shall be
25 deposited in the account."

26

27 Page 12, line 21:

28 Delete "(b)"

29 Insert "(c)"

30

31 Following "the purpose,":



1 Insert "the natural gas pipeline impact assistance account may be used to respond
2 to the needs of the state that are impacted by natural gas pipeline development. In addition,"

3 Page 12, line 27:

4 Delete "(c)"

5 Insert "(d)"

6

7 Page 12, line 29:

8 Delete "(d)"

9 Insert "(e)"

10

11 Page 13, line 6:

12 Delete "(e)"

13 Insert "(f)"

14

15 Page 13, line 9:

16 Delete "(f)"

17 Insert "(g)"

18

19 Page 13, line 15:

20 Delete "(g)"

21 Insert "(h)"

22

23 Page 14, line 16:

24 Delete "Sections 12 and 13"

25 Insert "Sections 15 and 16"

26

27 Page 14, line 17:

28 Delete "Sections 7 - 11 and 14"

29 Insert "Sections 7 - 14 and 17"

30

- 1 Page 14, line 18:
- 2 Delete "sec. 17"
- 3 Insert "sec. 20"

TESTIMONY OF JOHN ELLWOOD
BEFORE
THE ALASKA HOUSE FINANCE COMMITTEE

APRIL 24, 2002

Good afternoon, Mr. Chairman and members of the Committee. For the record, my name is John Ellwood. I am Executive Vice President and Chief Operating Officer of Foothills Pipe Lines Ltd. ("Foothills"). I am testifying on behalf of the Alaskan Northwest Natural Gas Transportation Company ("ANNGTC"). As most of you know, the ANNGTC is a partnership that was formed to obtain the necessary permits and authorizations for, and to build, own and operate, the Alaska Highway Project. I appreciate the opportunity to testify this afternoon on CSHB 519 (FIN).

Because of the size and complexity of an Alaska North Slope natural gas project, issuance of a right-of-way lease for such a project under the Alaska Right-of-Way Leasing Act, AS 38.35, involves unique legal and administrative considerations. As a result, we believe that certain statutory changes are needed or desirable to provide clarity to the process for consideration of a right-of-way lease application for an Alaska North Slope gas project.

In the context of our efforts to finalize a State right-of-way lease for the Alaska Highway Project, certain issues have arisen with respect to obtaining a lease for a gas conditioning facility to condition gas prior to its entering into the linear pipeline. In order to address these issues, Foothills has suggested an amendment to HB 519 that would clarify and confirm the ability of the Commissioner of Natural Resources to phase administrative review, analysis and findings under the Alaska Right-of-Way Leasing Act and that would permit action on our pending lease application at the earliest practicable date. We believe that this change is necessary to add clarity and predictability. We believe that it is in the State's best interest as well.

A lease application for the use of State lands for a gas conditioning facility for the Alaska Highway Project is currently pending under the Right-of-Way Leasing Act. This lease application is separate from the lease application for the linear pipeline.

There are several reasons for pursuing a lease for the conditioning facility separately, both physically and temporally, from a lease for the linear pipeline. The timing of ground-disturbing activities for the conditioning facility differs from that associated with the linear pipeline. Moreover, the stipulations appropriate for the linear pipeline differ significantly from those appropriate for the conditioning facility.

At the present time, considerable uncertainties also remain with respect to the conditioning facility. Until commercial negotiations with the producers are concluded, it will not be known who will construct and/or own the facility; whether custody to the gas would be transferred at the inlet or the outlet of the facility; or to what extent the ANGTS could and/or will utilize a portion of the producers' existing North Slope facilities.

Despite these factors that weigh in favor of prosecuting the application for a gas conditioning facility separately from the application for the linear pipeline, the lack of express authority to phase administrative review, analysis and findings under AS 38.35 for an Alaska North Slope gas project could prevent the Department of Natural Resources ("DNR") from conducting such a phased review, even though it might be in the best interests of the State. Alternatively, in the event DNR was to decide to prosecute the applications separately, under Alaska Supreme Court case law addressing the permissible use of phasing or segmentation in State permitting and land disposal decisions, DNR could be exposed to legal challenge for improper phasing.

In order to address these issues, the amendment we have proposed would provide DNR the necessary authority to limit the scope of its administrative review, analysis and finding for a proposed lease of land that pertains to a discrete phase of an Alaska North Slope natural gas project following a southern route, provided that certain conditions are met. These specified conditions are:

- (i) the only uses to be authorized by the proposed lease are part of that discrete phase;
- (ii) before the next phase of the project may proceed, public notice and the opportunity to comment are provided under regulations adopted by the Commissioner unless the pipeline is subject to a consistency review under AS 46.40 and public notice and the opportunity to comment are provided under AS 46.40.096(c);
- (iii) the Commissioner's approval is required before the next phase of the project may proceed; and
- (iv) the Commissioner describes the reasons for a decision to phase.

These conditions would ensure that the best interests of the State are served by a decision by DNR to phase.

This amendment would not limit the Commissioner's discretion under the Right-of-Way Leasing Act. It does not commit the Commissioner to any particular conclusion. Rather, it simply clarifies the scope of the Commissioner's authority and provides the Commissioner an

important tool to efficiently manage important permitting functions for a very large and complex project.

We appreciate the willingness of the sponsor to incorporate this very important amendment in the committee substitute that is before you today, and we believe that its adoption will provide yet another important indicator of the state's support for providing a clear and expeditious path for permitting a North Slope gas pipeline project.

That concludes my testimony, Mr. Chairman. I would be happy to answer any questions that you or members of the Committee may have.

ALASKA STATE CHAMBER OF COMMERCE

Testimony on HB 519
by Pamela LaBolle

Good morning, I am Pam LaBolle, President of the Alaska State Chamber of Commerce. The Alaska State Chamber represents 35 local chambers and 700 businesses, most of whom are small businesses deeply concerned with the economic future of Alaska. As the Voice of Alaska Business and the leading advocate for business headquartered here in Juneau, we always appreciate the opportunity to address bills of importance to the economic development of the state. Our legislative priorities are developed at the grassroots level by our membership through a several month long process of proposal, review and debate. Our top five priorities include urging the legislature and the governor to encourage the producers to proceed with development of a southern gas line route through Alaska.

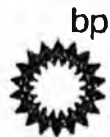
The Chamber speaks in favor of HB 519 and urges its passage. Alaska absolutely needs a gas pipeline. For our members to have their businesses thrive or even just stay viable Alaska's resources must be developed. It sometimes seems that people outside our state have a much greater say in what happens in our state than we do. With the defeat of ANWR in Congress just yesterday, there are no other large developments on the horizon that will spur the growth of our economy in the near term. Our executive committee meets monthly around the state often in smaller communities. As a result, we are very concerned about the state's economy. What is the state doing to encourage economic growth, to try to have a hand in our own destiny.

While the final results of the producers' study haven't been released yet, it should be apparent to everyone that this is a project of enormous cost and risk. The state and local governments would benefit greatly for years to come if we can encourage the producers to take the risks inherent in this huge project and develop the North Slope gas resources by building a project through Alaska. The temporary tax exemption provided by this bill should be looked upon as an investment by the state and municipalities to encourage the producers to go forward with a project that will create jobs, benefit municipalities, spur economic opportunity for businesses and start a whole new industry - a gas industry. By revitalizing the Alaska Stranded Gas Development Act and having it apply to this project, the state and producers can create a contract that will assure tax clarity and certainty and protect vital interests of the state and affected municipalities. How often does the state have an opportunity to take such a bold step to encourage large-scale economic growth. Several states and cities around our nation have offered to businesses tax incentives to encourage them to invest. The state should be less concerned with perhaps giving away too much and more concerned with not missing a significant opportunity for economic growth, perhaps the only one in the next few decades. Thank you.

Alaska Producer Pipeline Update

for
[rollout audience]

April, 2002



ExxonMobil



Outline of Information

- Overview and Conclusions
- Project Design and Technology
- Updated Project Feasibility
- Wrap-up



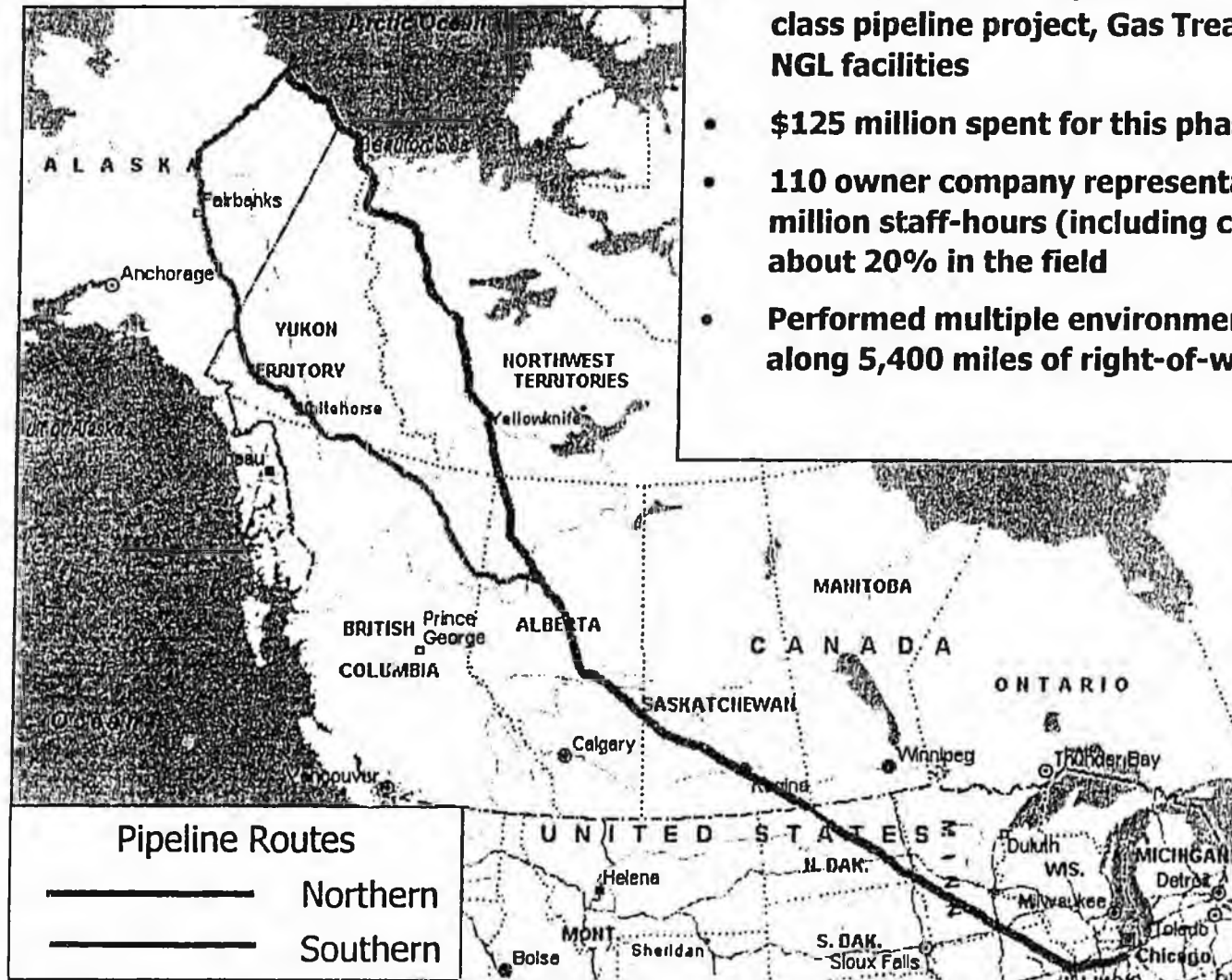
Outline of Information

- Overview and Conclusions
- Project Design and Technology
- Updated Project Feasibility
- Wrap-up



Project Overview

- **Developed feasibility cost estimates for a world class pipeline project, Gas Treatment Plant, & NGL facilities**
- **\$125 million spent for this phase of the project**
- **110 owner company representatives and over 1 million staff-hours (including contractors) with about 20% in the field**
- **Performed multiple environmental field studies along 5,400 miles of right-of-way**



Conclusions

- Project currently not commercially viable
 - Risks outweigh rewards
 - Substantial additional engineering work not justified at this time
 - Future activity must match progress with governments and commercial viability
- Governments will play a key role in reducing project cost, schedule risk
 - US Federal regulatory enabling legislation
 - NEB/First Nations regulatory process clarity
 - Alaska fiscal certainty

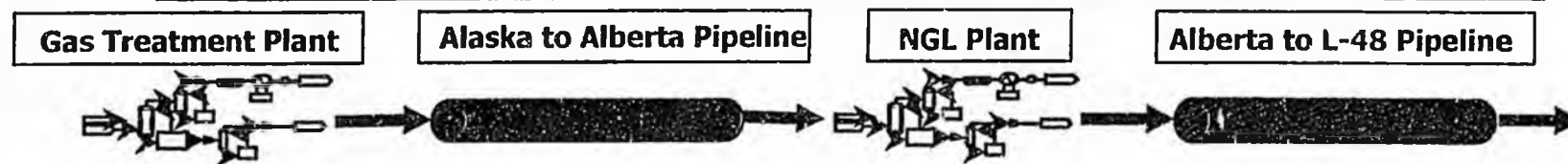


Outline of Information

- Overview and Conclusions
- Project Design and Technology
- Updated Project Feasibility
- Wrap-up

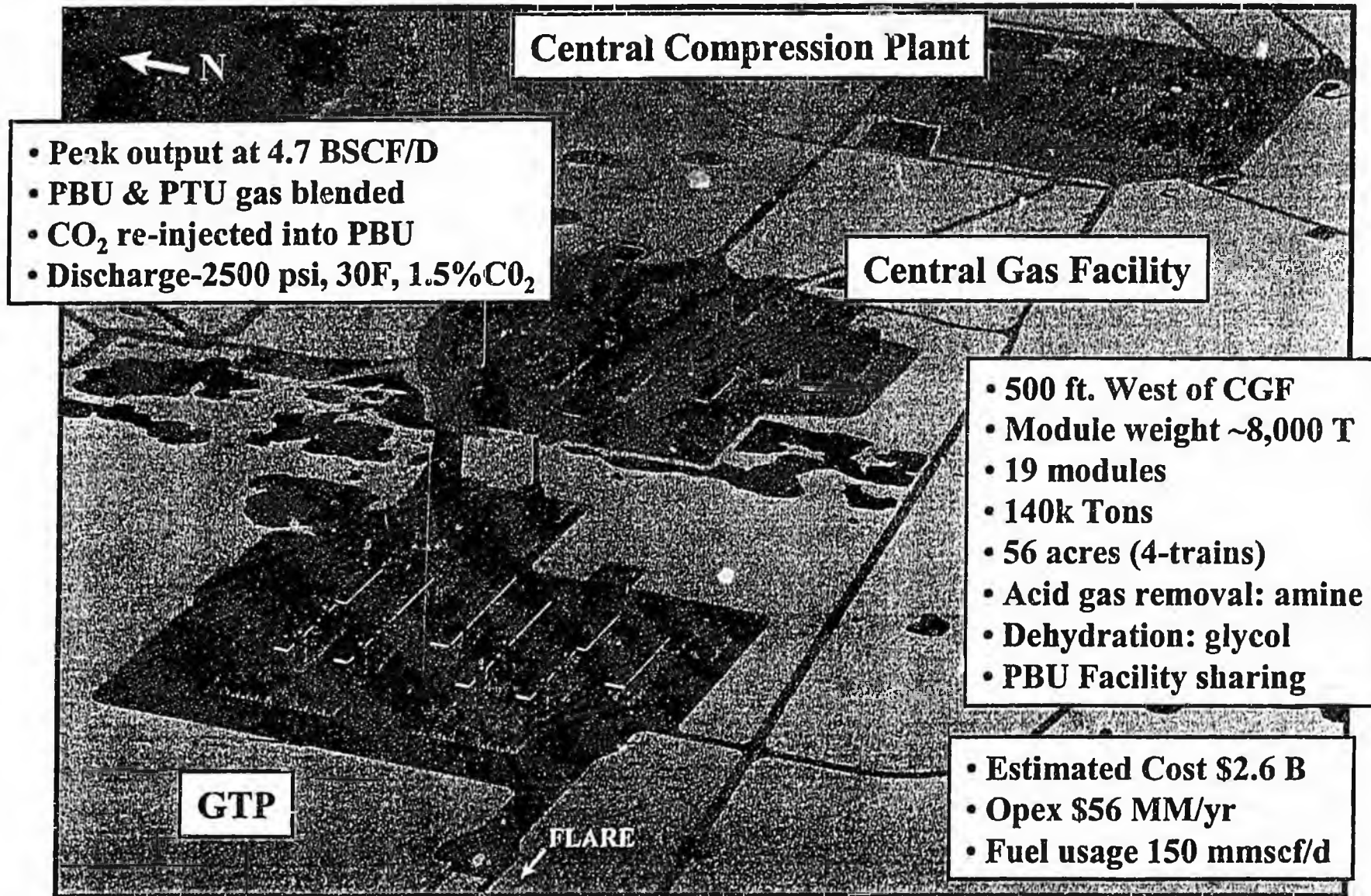


Statistical Summary (Alaska to L-48)



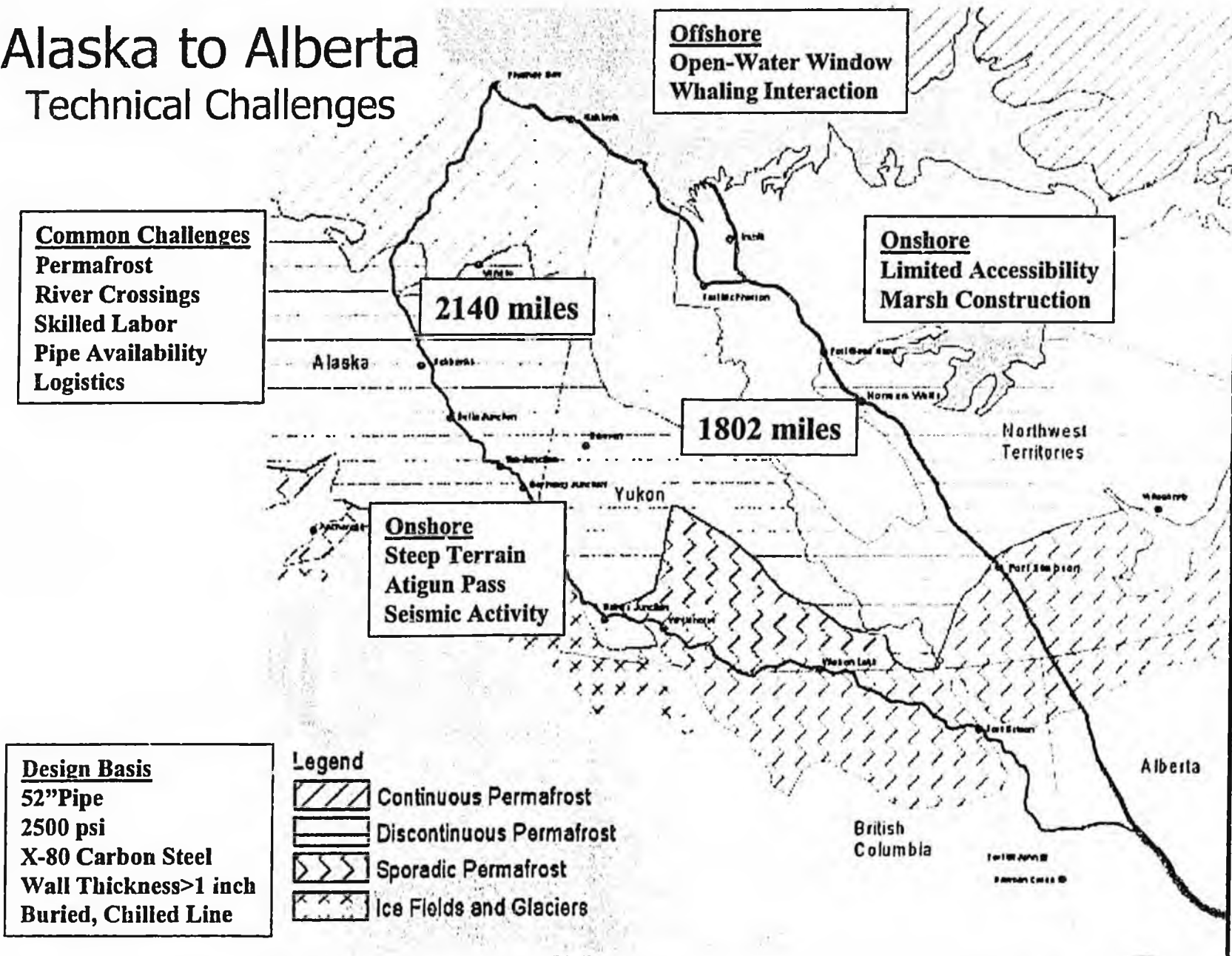
- **Pipeline Design Rate (bcfd) :** **4.5**
- **Expansion Potential (bcfd) :** **5.6**
- **Compressor Stations :** **24 - 28**
- **Total Pipeline Horsepower :** **1.2 – 1.4 million**
- **Alaska to Alberta (miles) :** **1,800 - 2,100**
- **Alberta to Market (miles) :** **1,500**
- **Pipe Diameter (inches) :** **52**
- **Operating Pressure (psi) :** **2,000 – 2,500**
- **Tons of Steel :** **5 – 6 million**
- **Construction Staff-Hours :** **50 million+**

Gas Treatment Plant (GTP)

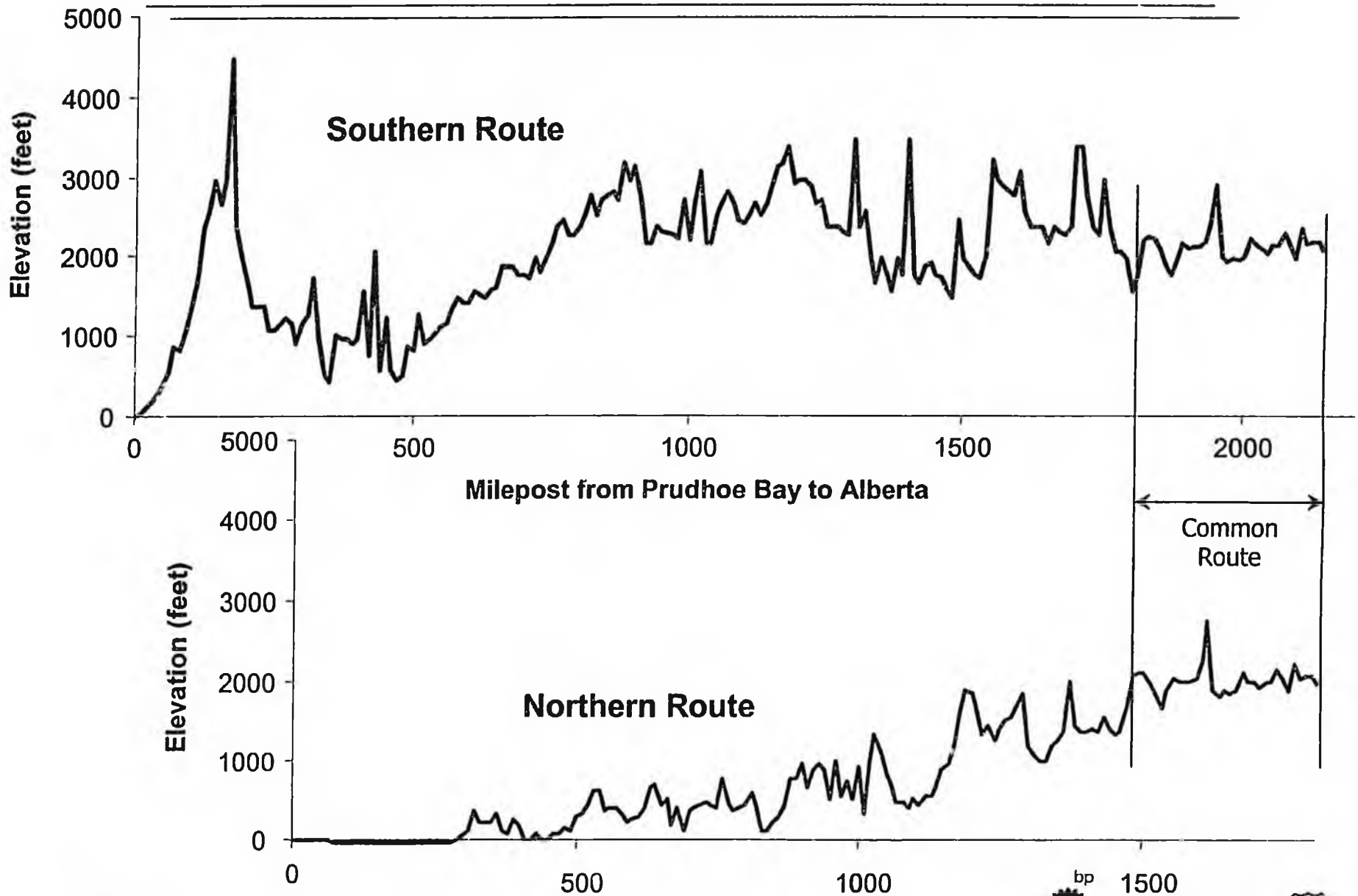


Alaska to Alberta

Technical Challenges



Route Elevation Profiles



April 2002

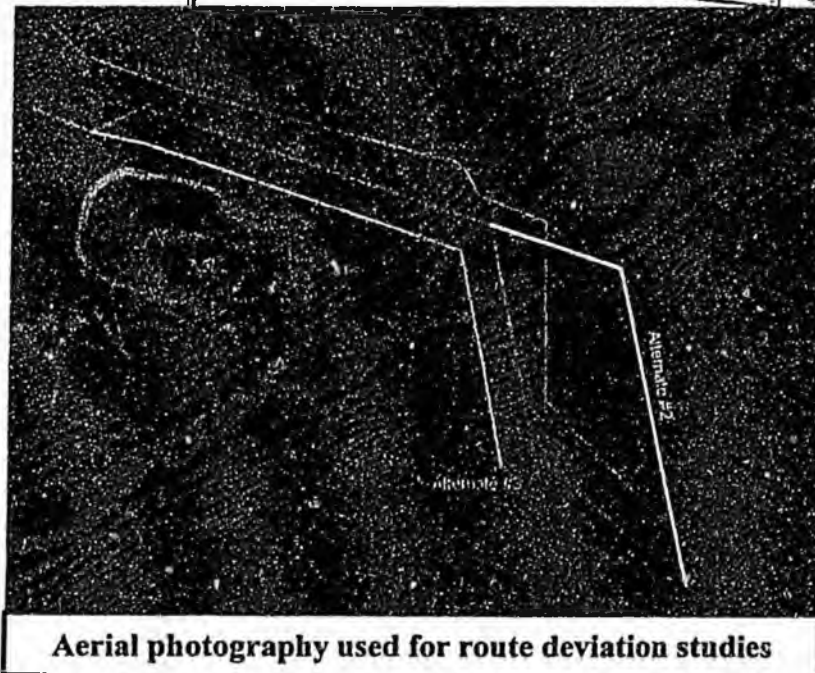
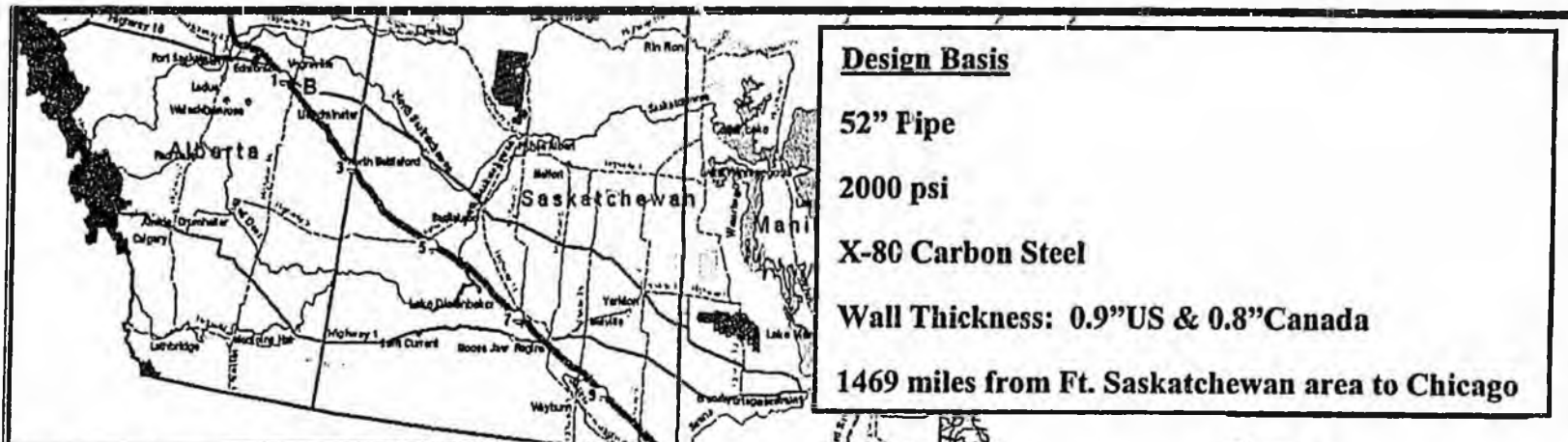
10



1500
ExxonMobil

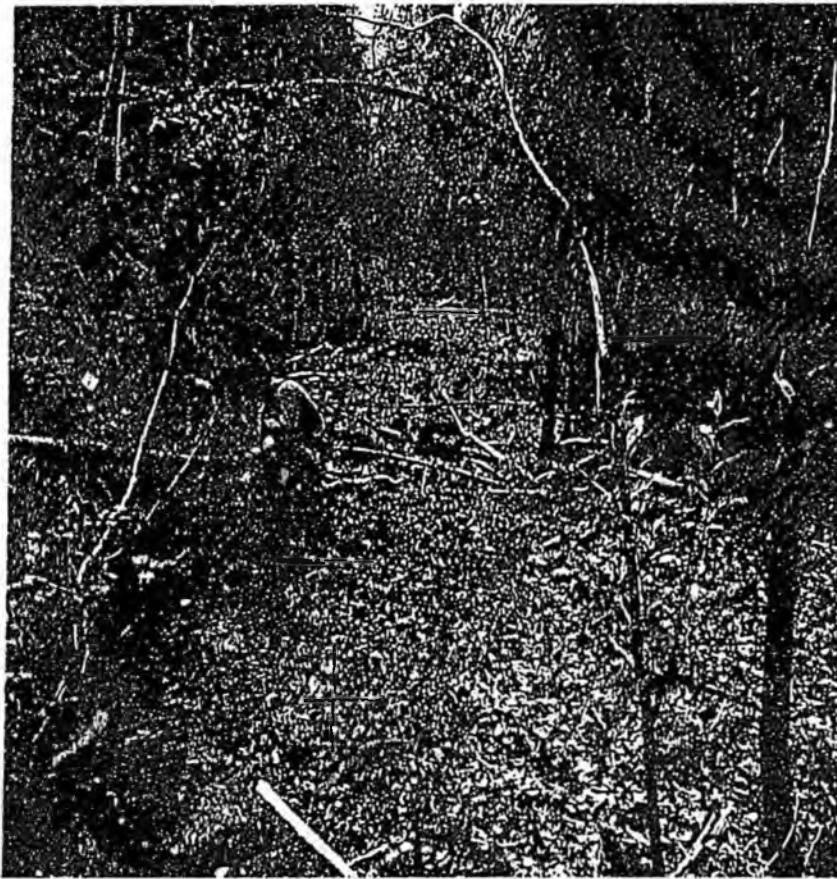


Alberta to Market



Environmental Field Studies

- Crews of 2 to 5 people mapping / photographing existing conditions
- Helicopters and fixed wing aircraft used for surveys / access
- Field effort exceeded 200,000 staff hours.



- Vegetation & Soils Surveys
- Wildlife, incl Threatened and Endangered Species
- Wetlands, Fisheries, Hydrology & Water Quality
- Cultural & Archaeology Resources
- Marine Mammal Study
- Traditional Knowledge Consultation

Outline of Information

- Overview and Conclusions
- Project Design and Technology
- Updated Project Feasibility
- Wrap-up



Updated Project Feasibility

- Joint project feasibility work results in significantly improved project definition
 - Better understanding of risks and opportunities
- Updated study results indicate the following:
 - Higher capital costs
 - Increased volumes delivered
 - Lower operating costs
 - Reduced fuel consumption
 - Current capital cost estimates have accuracy to approximately +/- 20%
 - Achieving lower costs and less cost uncertainty will require substantial future investment
- Project continues to have significant risks:
 - Regulatory/political risks
 - Fiscal risks
 - Cost risk
 - Long-term prices / Market volatility

Risk predominantly borne by producers, irrespective of pipeline ownership



Capital Costs / Tolls

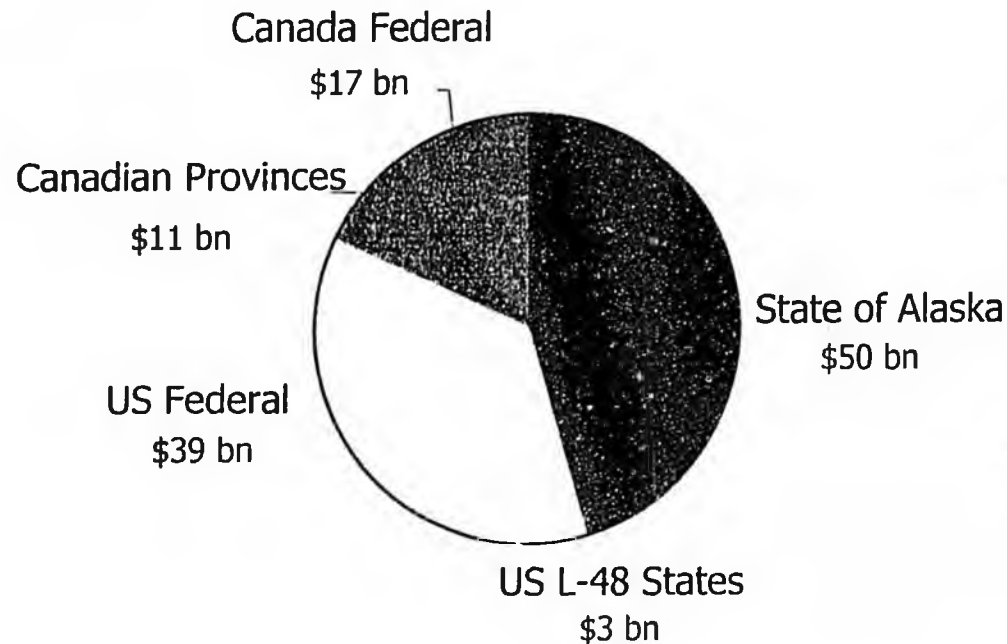
	Southern Route	Northern Route
Capital Cost ('01, \$billion)		
Gas Treatment Plant	2.6	2.6
Alaska to Alberta	11.6	10.8
Alberta to Market	4.6	4.6
NGL Extraction Facilities	0.6	0.6
<i>Alaska Project Share</i>	<i>19.4</i>	<i>18.6</i>
<i>Mackenzie Delta Share</i>	-	1.4
<i>Uncertainty</i>	<i>+/- 20%</i>	<i>+/- 20%</i>
Sales Gas Rate (bcfd)		
Alaska	4.3	4.3
Mackenzie Delta	-	1.0
Total	4.3	5.3
Project Toll (\$/mcf)		
Gas Treatment Plant	0.41	0.41
Alaska to Alberta	1.36	1.28
Alberta to Market	0.62	0.62
<i>Toll to Market</i>	<i>2.39</i>	<i>2.31</i>
<i>Range</i>	<i>1.90 - 2.85</i>	<i>1.85 - 2.75</i>



Estimated Government Take

Total Undiscounted Revenue

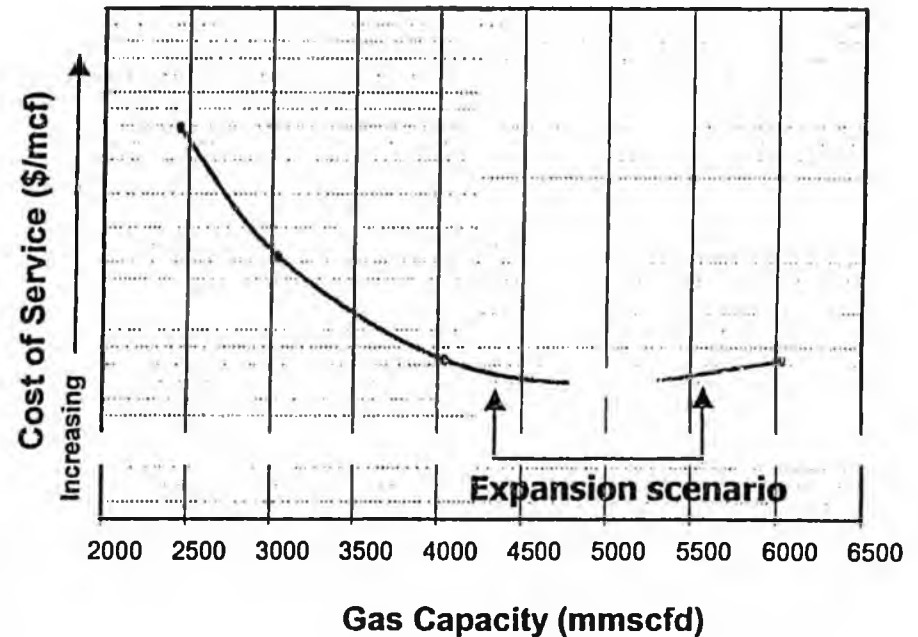
\$120 bn



- Revenues are roughly equivalent for Northern and Southern Routes
- Increased government take (vs. Sept. 2001) based on higher system throughput and longer project life
- 51 TCF AK gas reserves produced, including 16 TCF yet-to-be-discovered

Expansion

- Expandability built into system design
- System debottlenecking likely to yield small volume improvements
- Approximately 1 bcf/d expansion with intermediate compression
- Cost effective expansion facilitated by large diameter pipe
- Expansion will provide access to new gas discoveries



Viable Government Framework is Essential

- Establish predictable regulatory / fiscal regime.
 - Enact US enabling regulatory legislation
 - Progress predictable fiscal framework in Alaska
 - Progress clear and predictable regulatory process in Canada
- These initiatives require support from investors, governments, First Nations, Native communities, shippers, marketers and consumers.
 - Creates best possible structure for successful Alaska pipeline
- Significant forward expenditure will require predictable government framework.
 - Significant investment required to further reduce cost and reduce cost uncertainty
 - Governments will play a key role in reducing project cost, schedule risk
 - Avoid mandates
- Once government framework is established, commercially viable pipeline project still must be identified.



U.S. Enabling Regulatory Legislation

What is it?

- Language currently contained in Senate Energy Bill
 - Amendments may add risk/costs
- Available to any sponsor
 - New legislation will not preclude ANGTS Group from proceeding under ANGTA
 - ANGTS Group or any other investors can also proceed under this legislation
- Creates market-driven, expedited regulatory process for any viable project(s)
 - Subject to FERC regulation; fair and reasonable terms; open access
 - Subject to all environmental laws / regulations; 18-month EIS completion
- Creates Office in executive branch to coordinate all related federal agency activity

Why is it needed?

- Provides for federal regulatory certainty
 - Establishes clear process to encourage competitive, market-driven (lowest cost) solutions
 - Allows any number of producer / pipeline partnerships to evolve
 - Current regulatory risk discourages investment
- Expedites environmental review and project authorization
- Provides timely judicial review to reduce uncertainty



Alaska Fiscal Certainty

What is it?

- Provides for certainty in State government take:
 - Predictable disposition of State royalty gas, consistent with firm transportation commitments
 - Clear, simple, predictable gas valuation for royalty / severance tax payments
 - Severance tax rates and Economic Limit Factor (ELF)
 - Ad valorem tax rates and valuation methodology
 - Corporate income taxes
- Ensures stable fiscal terms over life of pipeline project

Why is it needed?

- Potential for fiscal change creates risk that jeopardizes long payout projects
 - Project already holds significant capital, schedule and market risk
 - Stable fiscal environment encourages long-term investment
 - Avoid future disputes over interpretation



Predictable NEB / First Nations Regulatory Process

What is it?

- Establishes clear regulatory processes between NEB and First Nations.
- Detailed plans for cooperation among Canadian Federal, Provincial, Territorial and First Nations regulatory authorities.
- Predictable, expedited process that fully complies with all environmental and regulatory laws.

Why is it needed?

- Ensure timely completion of regulatory and environmental assessment process.
- Lack of clear NEB/First Nations permitting process increases project risk.
- Avoid duplication of environmental assessments and conflict among Canadian governmental agencies and First Nations.



Outline of Information

- Overview and Conclusions
- Project Design and Technology
- Updated Project Feasibility
- Wrap-up



Wrap-up

- **Project currently not commercially viable.**
 - Risk/reward balance
- **Viable government framework is essential.**
 - U.S. enabling regulatory legislation
 - Alaska fiscal certainty
 - Predictable Canadian regulatory process
- **Joint team resources have been redeployed.**
- **Companies will collaborate as appropriate on future work**
 - Trenching trials
 - Input to clear / predictable government framework
 - Cost reduction opportunities



Seahawks' stadium is Seahawks Stadium

THE ASSOCIATED PRESS

SEATTLE — The Seattle Seahawks have picked a temporary name for their new home: Seahawks Stadium.

That name will be used at the new field on the site of the former Kingdome until permanent corporate naming rights are sold, First and Goal Inc. said Friday.

"We are absolutely committed to finding a suitable naming rights partner, but as of yet have not found a satisfactory deal," said Bob Collier, company vice president. "We will launch the stadium this summer with an interim name that can be changed when the naming rights are ultimately sold."

First and Goal was founded by Seahawks owner and Microsoft billionaire Paul Allen in 1997 to manage development and operation of the stadium. When the naming rights are sold, the money will go toward stadium upkeep. Until then, First and Goal will cover the costs.

Taxpayers are paying up to \$300 million of the cost of the \$430 million stadium, scheduled for completion in July. First and Goal has the right to name the stadium, with the deal subject to review by the Public Stadium Authority Board and a legislative advisory committee.

The Seahawks played two seasons at the University of Washington's Husky Stadium while the new stadium was being built.

The team, which improved from a 6-10 record to a 9-7 mark last season, will switch from the AFC West to the NFC West this coming season. Seattle plays its first pre-season game on August 10.

The Voice of Alaska's Capital City Since 1912

Copyright 2002 The Journal of Alaska

JUNEAU EMPIRE

50 cents
Friday
May 3
2002
Volume 91
No. 10417

**FBI alerted before
9/11 about flight
school applicants**

Page 5



**Cameron hits
four homers
to tie record**

Page 13

5-4-02
48.5.12