

SB

360

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 360
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DNR
 Title Alaska Natural Gas Project Act BRU Oil & Gas Development
 Component Gas Pipeline Office
 Sponsor Senate Resources
 Requester Torgerson Component No. 2594

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	25.0					
Travel	5.0					
Contractual						
Supplies	2.0					
Equipment	1.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTA' OPERATING	33.0	0.0	0.0	0.0	0.0	0.0

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

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts	33.0					
1037 GF/Mental Health						
Other (Specify Type-Do not abbreviate)						
TOTAL	33.0	0.0	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						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The Gas Pipeline Office (GPO) would likely not have a role in administering any portion of Sections 1-4 of SB 360 beyond consultation as requested by the commissioner.

For Section 5, the GPO would likely: receive and review plans and studies developed pursuant to the proposed AS 38.35.240(a); receive and review the certificates by the commissioner of labor and workforce development and the Regulatory Commission of Alaska (RCA) developed pursuant to the proposed AS 38.35.240(b)and(c); work with the Division of Oil and Gas, the RCA, the Department of Law, and the applicant to craft and negotiate lease stipulations that would satisfy the proposed AS 38.35.240(d); work with the Division of Governmental Coordination, the applicant, and others to determine appropriate phasing of project under the proposed AS 38.35.245.

Prepared by: William G. Britt, Jr., Gas Pipeline Coordinator Phone 907-334-2363
 Division Gas Pipeline Office Date/Time 4/15/02 10:37 AM
 Approved by: Pat Pourchot Date 4/15/2002
 Agency Natural Resources

FISCAL NOTE

**STATE OF ALASKA
2002 LEGISLATIVE SESSION**

BILL NO. SB 360

ANALYSIS CONTINUATION

All of these tasks are beyond those that presently exist in adjudicating a right-of-way (ROW) lease under the ROW Leasing Act and other existing policies and procedures.

The GPO would likely not have a role in administering any portion of Sections 6-10 and 12-14 of SB 360 beyond consultation as requested by the commissioner.

For Section 11, the GPO would work with the Division of Governmental Coordination, the applicant, and others to determine appropriate phasing of project under the proposed AS 46.40.094(d). This work would be essentially the same as that necessary under the proposed AS 38.35.245.

The estimate above is based on the assumptions that the majority of the work identified would be performed by a Natural Resource Manager III with supervision by the Gas Pipeline Coordinator, and that the work would take approximately 0.25 of that position during FY03. Minimal travel, supplies, and equipment associated with the effort are included. The cost of these efforts should be reimbursable under AS 38.35.140(b).

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 360
 () Publish Date: _____
 Dept. Affected: Natural Resources
 BRU: Oil and Gas Developmen
 Component: Oil and Gas Developmen
 Component Number: 439

Revision Date/Time (Note if correction): _____
 Title: Alaska Natural Gas Project Act
 Sponsor: Senate Resources
 Requester: Senate Resources

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						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	165.0	165.0				
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CHANGE IN REVENUES ()			*See Below			
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	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 FY2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill would authorize DNR to waive, reduce, or defer royalties on North Slope gas if: 1) an applicant provides clear and convincing evidence that royalty relief will make an uneconomic project economic; 2) the applicant and DNR Commissioner have entered into an agreement to begin pipeline construction by a certain date; 3) DNR has considered any other financial incentives granted by other jurisdictions; 4) the applicant has obtained certain certificates including certificates from the Dept. of Labor and the Regulatory Commission of Alaska; and 5) the Legislature approves the royalty relief.

Continued on next page.

Prepared by: Bonnie Robson Phone 269-8800
 Division Oil and Gas Date/Time 12-Apr-02
 Approved by: Pat Pourchot Date 15-Apr-02
 Agency Natural Resources

ANALYSIS: (continued)

* It is impossible to determine at this time whether the state will waive, reduce, or defer any royalties on North Slope gas. However, because waiver, reduction, and deferral are only authorized if and to the extent necessary to make an uneconomic project economic, any waiver, reduction, or deferral should not result in the loss of royalties that would have otherwise been received. Otherwise stated, if there is no project and hence no marketing of North Slope gas, no royalties will be paid; hence, if royalty relief enables a project, any royalties received from that project--even reduced royalties--would exceed royalties received in the absence of a project. The only danger exists in granting royalty relief where none is actually needed. In that case, the fiscal impact could be substantial. For example, if royalties are waived when they would otherwise be \$1 per mcf, over the course of 20 years the state could lose up to \$3.65 billion. However, the bill contains safeguards designed to minimize the risk of unnecessary waiver of royalties.

Unfortunately, the safeguards are not self-executing. If an applicant seeks royalty relief, DNR will need to obtain access to and review extensive documentation pertaining to the economics of the project, as well as financial incentives being offered by other jurisdictions, 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 at an estimated cost of \$250,000 to assure that royalty relief is kept to the bare minimum necessary. Additionally, DO&G estimates that \$80,000 would be needed for staff and expert travel related expenses (\$2,500 per trip x 4 people x 4 trips x 2 years = \$80,000). These sums could be appropriated by the legislature, or SB 360 could be modified to allow recoupment of at least the expert expenses from the applicant(s).

The Division has spread the capital costs identified above ($\$250,000 + \$80,000 = \$330,000$) over two fiscal years to reflect not only the duration of investigation and negotiations contemplated, but also that a preliminary investigation in a single year might establish that royalty relief is not needed to make an uneconomic project economic, in which case a second year of expenses might be avoided.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: SB 360
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
Title Alaska Natural Gas Project Act BRU Regulatory Commission of Alaska (399)
Component Regulatory Commission of Alaska
Sponsor Senate Resources
Requester Senate Resources Component No. 2417

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		100.0	100.0			
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	100.0	100.0	0.0	0.0	0.0

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

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1141 Regulatory Commission of Alaska Receipts		100.0	100.0			
TOTAL	0.0	100.0	100.0	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)

Assuming that the project gets underway in FY04, \$100.0 in contractual monies will be needed for a contractual Administrative Law Judge to conduct the required public hearing(s), and for technical support to provide additional engineering and economic expertise in evaluating the application. The RCA's budget is funded through the Regulatory Cost Charge (RCC) and direct charge mechanisms. No general funds are allocated for support of the agency.

Prepared by: Dawn Bishop-Kleweno, Special Assistant Phone (907) 276-6222
Division Regulatory Commission of Alaska Date/Time 4/12/02 5:02 PM
Approved by: Deborah B. Sedwick, Commissioner Date 4/12/2002
Agency Department of Community & Economic Development

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 360
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Department: Labor and Workforce Development
 Title: Alaska Natural Gas Project BRU: Office of the Commissioner
 Component: Commissioner's Office
 Sponsor: Senate Resources
 Requester: Senate Resources 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						
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CHANGE IN REVENUES ()						
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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: 4/12/02 4:39 PM
 Approved by: Ed Flanagan, Commissioner Date: 04/12/02
 Agency: Department of Labor and Workforce Development

For distribution information, call the Governor's Legislative Office

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 360
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Alaska Natural Gas Project Act BRU Administration & Support
 Component Office of the Commissioner
 Sponsor Senate Resources
 Requester Senate Resources 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						
Travel						
Contractual	260.0	160.0				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	260.0	160.0	0.0	0.0	0.0	0.0

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

FUND SOURCE	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
1002 Federal Receipts						
1003 GF Match						
1004 GF	260.0	160.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	260.0	160.0	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						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See Page 2 for analysis.

Prepared by: Larry Persily, Deputy Commissioner Phone 465-5469
 Division Department of Revenue Date/Time 4/15/02 11:52 AM
 Approved by: Wilson Condon, Commissioner Date 4/15/2002
 Agency Department of Revenue

SB 360 - Department of Revenue

Alaska Railroad Project Bonds

Sections 6 through 9 of this legislation authorize the Alaska Railroad Corporation to issue up to \$18 billion in bonds for construction of a natural gas pipeline to commercialize North Slope natural gas resources. Because of the importance of this project to the state's public finances, the complexity of the bond issuance and the large amount of bonds to be sold, it is important that the Railroad Corporation receive expert advice from the beginning. It also is important that the Executive Branch be involved in the discussions to represent the state's independent interests.

To meet the needs stated above, the department proposes to transfer to the Railroad Corporation, via a Reimbursable Services Agreement, up to \$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.

Property Taxes

Section 10 of this legislation authorizes the Commissioner of Revenue to propose a waiver, reduction or deferral in property taxes owed under AS 43.56 on an Alaska North Slope Natural Gas Project, but only under specific conditions:

- The project applicant has obtained all necessary certificates under AS 38.35.240.
- The project applicant must show, "by clear and convincing evidence," that the project would not be economically feasible without the property tax relief.
- The applicant and Commissioner of Revenue must enter into an agreement to begin construction of the project by a date certain.
- The Commissioner shall consult with any municipality that could be affected by the property tax relief allowed under this section, and shall prepare a report on the socioeconomic effects of the project on the affected municipalities.
- And any waiver, reduction or deferral of taxes under this section is not effective until approved by the legislature.

For purposes of this fiscal note, the department assumes a project applicant will fulfill the requirements of this legislation sometime in FY03, requiring the Commissioner to begin reviewing the need for property tax relief, preparing the socioeconomic studies, and then negotiating property tax relief with the project applicant. The \$200,000 in requested contractual funds in FY03 and \$100,000 in FY04 would help pay for the community impact studies, the economic feasible review (in conjunction with the Department of Natural Resources), and the financial and tax advisers needed to prepare recommendations for the Legislature.

ALASKA STATE LEGISLATURE

Chairman: Senator John Torgerson
Vice Chair: Senator Gary Wilken
Senator Rick Halford
Senator Ben Stevens
Senator Robin Taylor
Senator Kim Elton
Senator Georgianna Lincoln



Official Business

State Capitol, Room 427
Juneau, AK 99801
Phone: (907) 465-4907
Fax: (907) 465-4779

SENATE RESOURCES COMMITTEE

SPONSOR STATEMENT

SB 360

ALASKA NATURAL GAS PROJECT ACT

SB 360 seeks to expedite the construction and operation of an Alaska gas line from the North Slope south through Canada to the lower 48 or to Alaska tidewater for shipment as LNG ("project"). It provides fiscal incentives and permitting benefits to those project sponsors who are willing to work with the State of Alaska to ensure: (1) opportunities for employment of Alaskans and Alaskan businesses are maximized; (2) potential in-state demand for gas from the project can be satisfied; and (3) competition in the exploration and development of northern Alaska gas is promoted.

Currently, a project sponsor for a pipeline Right-of-Way (ROW) lease to construct a pipeline from the North Slope can proceed under the provisions of the Alaska Pipeline Right-of-Way Leasing Act. However, those provisions and other provisions of Alaska law will be modified for a sponsor who agrees to do the following:

1. Train and hire Alaskans and use Alaska businesses in the construction and operation of the Project consistent with constitutional provisions.
2. Complete a study on in-state demand and submit a plan that must be approved by the RCA to meet that demand.
3. Complete a study on natural gas resources in northern Alaska and submit a plan that must be approved by the RCA to maximize access to the Project so that competition in the Alaska oil and gas industry is promoted.
4. Update those demand and resources studies ten years after construction of the Project starts.
5. Agree to provisions in the ROW lease providing for in-state use of royalty gas and expansion of the Project.

If a project sponsor gets certifications from the appropriate agencies that the sponsor will or has done all of the above, the sponsor gets the following expeditious treatment in obtaining authorizations to construct and operate the Project:

1. The Project may be phased under both the ROW leasing act and the Coastal Zone Management act.
2. All agencies must give full cooperation to the DNR commissioner on Project matters by providing information and by issuing any necessary authorizations at the earliest practicable date, on an expedited basis, and with precedence over any like matter pending before the agency.
3. Any authorization may be amended as necessary to further the purposes of the Act.
4. If the governor finds a provision of law that impedes the Project, he may propose a waiver of law.
5. Any decisions by the commissioner and other agencies shall be subject to limited judicial review only and such claims must be brought within 60 days.
6. The DOR commissioner may waive, reduce, or defer all or a portion of the property tax payments relating to the project and the DNR commissioner can do the same for the royalty payments. The commissioners can only offer these incentives if;
 - a) the project would not otherwise be economically feasible,
 - b) an agreement is made to begin construction by a certain date, and
 - c) the legislature approves.
7. The Alaska Railroad Corporation may provide tax exempt financing for the project

Any project sponsor can proceed to apply for a ROW lease under the current Alaska Pipeline Right-of-Way Leasing Act without obtaining the certificates outlined in this bill. They will not, however, be eligible for any of the incentives this legislation offers.

ALASKA STATE LEGISLATURE

Chairman: Senator John Torgerson
Vice Chair: Senator Gary Wilken
Senator Rick Halford
Senator Ben Stevens
Senator Robin Taylor
Senator Kim Elton
Senator Georgianna Lincoln



Official Business

State Capitol, Room 427
Juneau, AK 99801
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SENATE RESOURCES COMMITTEE

SB 360 SECTIONAL ANALYSIS

General Provisions – Sections 1-3

Section 1. Short Title.

The Act is the "Alaska Natural Gas Project Act."

Section 2. Findings Regarding Amendments To The Right-Of-Way Leasing Act.

This section sets forth legislative findings regarding:

- (1) The various pipeline proposals;
- (2) The benefits to Alaska from in-state use of gas and from hiring Alaskans and contracting with Alaskan businesses to work on a pipeline; and
- (3) The need for competition in the upstream portion of the Alaska gas industry.

Section 3. Findings Regarding Amendments To The Alaska Railroad Corporation Act.

This section sets forth legislative findings regarding the appropriateness of the Alaska Railroad Corporation's issuance of financing to benefit an Alaska natural gas project.

Alaska Land Act Provisions (AS 38.05) – Section 4

Section 4. Changes to Lease Provisions and Royalty Reduction.

If an applicant/lessee obtains the certificates required by AS 38.35.240, then the DNR commissioner may modify any provision in the oil and gas lease that impedes the project. Additionally, the commissioner may reduce the royalty if:

- (1) The commissioner considers what incentives other jurisdictions are providing to the project;
- (2) The applicant demonstrates by clear and convincing evidence that the project would not otherwise be economically feasible; and
- (3) The applicant has agreed to a date certain to begin construction of the project. However, the royalty reduction would only be effective if approved by the legislature.

Right-of-Way Leasing Act Provisions (AS 38.35) – Section 5

Section 5. Purpose of the Act, Required Plans and Agreements, and Special Provisions for an Approved Project

AS 38.35.235 sets forth the Act's purposes. They are to:

- (1) Expedite a project consistent with ensuring that the people of Alaska get the maximum benefits possible;
- (2) Ensure access to the project by oil and gas companies that do not have an ownership interest in the project and to promote competition in the exploration and development of northern Alaska natural gas;
- (3) Ensure access to the state's royalty gas for Alaskans and Alaskan businesses; and
- (4) Ensure employment of Alaskans and the use of Alaska firms in connection with the project.

AS 38.35.240 describes the actions that an applicant must take before the applicant is eligible for the benefits provided by the Act. If the applicant's actions met certain standards, then the applicable agency will issue a certificate of approval. To expedite the process, the agency must conduct a hearing and act within 90 days of receiving a request for a certificate. The required actions are:

- (1) The applicant must submit a plan showing how the applicant will use best efforts to train and employ state residents and, whenever feasible, will contract with firms in the state in connection with the project;
- (2) The applicant must study in-state demand and submit a plan showing how the plan will maximize the opportunities for access to state royalty gas transported in the project;
- (3) The applicant must study potential gas resources in northern Alaska and submit a plan showing how the applicant's plan and design of the

project will maximize the opportunities for access to initial and expansion capacity on the project;

- (4) The applicant must update the demand and supply studies ten years after construction of the project starts;
- (5) The applicant must agree to lease stipulations that:
 - (a) The applicant will provide access to the state to ship the state's royalty gas for use within the state and will use best efforts to get appropriate authorizations to effectuate such shipments;
 - (b) The applicant must seek expansion of the pipeline from the appropriate federal agency if the Regulatory Commission of Alaska determines that expansion of the pipeline is in the best interests of the state and that other criteria are met.

AS 38.35.245 provides that if an applicant/lessee obtains the certificates required by AS 38.35.240, then the DNR commissioner may phase the lease application process.

AS 38.35.250 provides that if an applicant/lessee obtains the certificates required by AS 38.35.240, then all other agencies involved in the permitting of the project must give their full cooperation to the DNR commissioner. They must do this by:

- (1) Assembling and furnishing all requested information;
- (2) Issue necessary authorizations at the earliest practicable date, on an expedited basis, and, notwithstanding any other provision of law, with precedence over any like matter;
- (3) Amend any authorization as necessary except changing the basic nature or general route or otherwise impairing the expeditious construction of the project.

AS 38.35.255 provides that the governor may ask for a waiver of law if any applicable provision of law constitutes an obstacle to the expeditious construction of the project.

AS 38.35.257 provides that if an applicant/lessee has obtained the certificates required by AS 38.35.240, then judicial review of decisions made or actions taken under the Act is limited to claims that can be brought under AS 38.35.200 (b) and such claims must be brought within 60 days after the decision or act.

AS 38.35.259 defines various terms used throughout the Act.

Alaska Railroad Corporation Provisions (AS 42.40) – Sec. 6 - 9

Section 6. Powers of the Alaska Railroad.

This section amends the general powers of the Alaska Railroad Corporation to give it authority to provide financing for the project within and outside the state whether or not the Railroad owns the project.

Section 7. Public Purpose of Bonds.

This section provides that bonds issued by the Railroad for the project are for an essential public and governmental purpose.

Section 8. Payment of Bonds.

This section provides that before issuing bonds for the project, the Railroad must enter into an agreement to ensure that the bond's principal and interest will be timely paid, reserves will be sufficient for the required payments, and all costs relating to the bonds will be paid by an entity other than the corporation.

Section 9. Issuance of Bonds.

This section provides that if an applicant/lessee obtains the certificates required by AS 38.35.240, then the Railroad may issue bonds to an applicant to finance the construction of the project and related facilities. The maximum amount of the bonds is \$18,000,000 and they may be issued in several issuances.

Oil and Gas Taxes Provisions (AS 45.56) – Section 10

Section 10. Reduction of Taxes.

This section provides that if an applicant/lessee obtains the certificates required by AS 38.35.240, then the DOR commissioner may reduce taxes levied by the state or municipality if:

1. The commissioner has consulted with any affected municipality, prepares a report on socioeconomic effects of the project on any affected municipality, and has considered whether other jurisdictions have granted incentives;

2. The applicant demonstrates by clear and convincing evidence that the project would not otherwise be economically feasible; and
3. The applicant has agreed to a date certain to begin construction of the project.

However, any tax reduction would only be effective if approved by the legislature.

Alaska Coastal Management Program Provision (AS 46.40) – Section 11

Section 11. Phasing under the Coastal Management Program.

This section provides that if an applicant/lessee obtains the certificates required by AS 38.35.240, then any agency responsible for the consistency determination for a project may phase review of the project.

Uncodified Provisions – Sections 12 – 14

Section 12. Limitation of Certain Actions.

This section provides that constitutional challenges to this Act must be brought within 60 days after the Act's effective date.

Section 13. Legislative Authorization and Approval.

This section provides that, by passing this Act, the legislature is granting the approval required by AS 42.40.285 for the Railroad to issue bonds to the project.

Section 14. Effective Date.

The Act takes effect immediately.



**Testimony on Senate Bill 360
Before the Senate Resources Committee
April 15, 2002**

**Mark Hanley
Alaska Public Affairs Manager
Anadarko Petroleum Corporation**

Chairman Torgerson, Anadarko would like to express our thanks for the time you have taken and the effort you have made to understand the issues surrounding north slope gas commercialization. We would also like to thank you for the input you gave to Congress on behalf of the Joint Committee on Natural Gas regarding the energy bill, particularly on promoting exploration by encouraging fair and reasonable pipeline access for gas from currently undiscovered reserves.

As many of you are aware, Anadarko is one of the largest independent oil and gas exploration and production companies in the world. We have been very active in Alaska over the past few years and we have one of the largest portfolios of exploration acreage in Alaska. We are excited about the gas potential of a large portion of our exploration acreage, particularly in the Foothills region.

The North Slope has tremendous gas potential in addition to already discovered reserves. Last year's Foothills area wide lease sale saw an all time record for the number of acres leased at a single sale. In addition to Anadarko and EnCana (formerly Alberta Energy), the Foothills sale attracted companies like Unocal, Chevron, Burlington Resources and Petro-Canada, who are also interested in gas exploration in Alaska. The United States Geological Survey, in a 1995 report, estimated that undiscovered gas reserves on Alaska's north slope could be more than double the already identified gas reserves of about 33 trillion cubic feet. In the Foothills area, wells with gas shows were drilled years ago while looking for oil and we are completing our second season of seismic work trying to identify the best gas prospects.

Typically in exploration for oil and gas, the greatest risk is in finding commercial reserves. In the case of North Slope gas, at least as great a risk is actually in obtaining fair and reasonable pipeline access. Without reasonable assurance that gas can be transported to market, explorers are unlikely to invest the considerable up front dollars to explore for something that can't be sold.

Similar to the energy legislation currently being considered in Congress, Senate Bill 360 encourages exploration competition and helps provide reasonable and fair pipeline access for "new" gas. We agree with purposes stated in the bill, which are "to ensure access to the project by oil and gas companies that do not have an ownership interest in the project on an equal and nondiscriminatory basis, and to promote competition in the exploration, development, and production of northern Alaska natural gas."

Anadarko and EnCana recently outbid three other proposals, in an effort to buy state royalty gas, which would help us acquire pipeline capacity. If our offer to buy royalty gas is eventually approved by the legislature, this, along with access provisions in SB 360, will encourage our continued investment in exploring for and developing North Slope gas.

Anadarko supports Senate Bill 360 because it helps provide fair and reasonable pipeline access, and it should help attract companies who are interested in investing in Alaskan gas exploration.