

HB

16

SENATE COMMITTEE REPORT

DATE: 3/28/03

FURTHER: Finance

DATE TURNED
IN TO OFFICE: _____

Resources Committee considered CS FOR HOUSE BILL NO. 16(FIN) am

HB 16 STRANDED GAS DEVELOPMENT ACT AMENDMENTS

"An Act amending, for purposes of the Alaska Stranded Gas Development Act, the standards applicable to determining whether a proposed new investment constitutes a qualified project, the standards used to determine whether a person or group qualifies as a project sponsor or project sponsor group, and the deadline for applications relating to the development of contracts for payments in lieu of taxes and for royalty adjustments that may be submitted for consideration, and modifying the conditions bearing on the use of independent contractors to evaluate applications or to develop contract terms; providing statements of intent for the Act relating to use of project labor agreements and to reopening of contracts; and providing for an effective date."

and recommends:

- be replaced with S CS HB 16 (RES)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:

- same title
- new title

House Bill:

- same title
- technical title
- new: SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Zero	FN#
REV	3/10/03	✓		4
DCED	2/5/03		✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>			✓	
<i>[Signature]</i>				
<i>[Signature]</i>			✓	
<i>[Signature]</i>				
<i>[Signature]</i>				
CHAIR: <i>[Signature]</i>	✓			

23-LS0101\W
Chenoweth
4/2/03

SENATE CS FOR CS FOR HOUSE BILL NO. 16(RES)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES FATE, Whitaker, Chenault, Holm, Kohring, Heinze, Crawford,
Guttenberg, Lynn

A BILL

FOR AN ACT ENTITLED

1 "An Act amending, for purposes of the Alaska Stranded Gas Development Act, the
2 standards applicable to determining whether a proposed new investment constitutes a
3 qualified project, the standards used to determine whether a person or group qualifies
4 as a project sponsor or project sponsor group, and the deadline for applications relating
5 to the development of contracts for payments in lieu of taxes and for royalty
6 adjustments that may be submitted for consideration, and modifying the conditions
7 bearing on the use of independent contractors to evaluate applications or to develop
8 contract terms; providing statements of intent for the Act relating to use of project labor
9 agreements and to reopening of contracts; and providing for an effective date."

10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

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

1 LEGISLATIVE INTENT. It is the intent of the legislature that

2 (1) in awarding contracts under the Alaska Stranded Gas Development Act, a
3 qualified sponsor or qualified sponsor group and contractors of the qualified sponsor or
4 qualified sponsor group may develop and enter into project labor agreements with appropriate
5 collective bargaining organizations for each project for which a contract is entered into; and

6 (2) each contract for payments in lieu of taxes and for royalty adjustments
7 entered into under the Alaska Stranded Gas Development Act contain a provision by which
8 the contract may be reopened by any party to the contract; the subject matter of the reopening
9 may be dealt with through the use of arbitration proceedings agreed on by the parties.

10 * Sec. 2. AS 43.82.100 is amended to read:

11 Sec. 43.82.100. **Qualified project.** Based on information available to the
12 commissioner, the commissioner may determine that a proposal for new investment is
13 a qualified project under this chapter [ONLY] if the project

14 (1) principally involves

15 (A) the transportation of North Slope natural gas by a
16 natural gas pipeline to one or more markets, together with any associated
17 processing or treatment;

18 (B) [IS A PROJECT FOR] the export of liquefied natural gas
19 from the state to one or more other states or countries; or

20 (C) any other technology that commercializes the shipment
21 of natural gas within the state or from the state to one or more other states
22 or countries;

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

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

28 * Sec. 3. AS 43.82.110 is amended to read:

29 Sec. 43.82.110. **Qualified sponsor or qualified sponsor group.** The
30 commissioner may determine that a person or group is a qualified sponsor or qualified
31 sponsor group if the person or a member of the group

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

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

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

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

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

11 (D) has a net worth equal to at least 10 [33] percent of the
12 estimated cost of constructing a qualified project;

13 (E) has an unused line of credit equal to at least 15 [25] percent
14 of the estimated cost of constructing a qualified project.

15 * Sec. 4. AS 43.82.170 is amended to read:

16 Sec. 43.82.170. **Application deadline.** The commissioner of revenue or the
17 commissioner of natural resources may not act on an application for a contract
18 submitted under AS 43.82.120 unless the application is received by the Department of
19 Revenue no later than March 31, 2005 [JUNE 30, 2001].

20 * Sec. 5. AS 43.82.240(a) is amended to read:

21 (a) The commissioner may use independent contractors [AN
22 INDEPENDENT CONTRACTOR] to assist in the evaluation of an application or in
23 the development of contract terms under AS 43.82.200. The commissioner may
24 condition the development of a contract under AS 43.82.020 on an agreement by the
25 applicant to reimburse the state for the reasonable expenses of independent
26 contractors [AN INDEPENDENT CONTRACTOR] under this section. A
27 reimbursement of expenses that is required in an agreement authorized by this
28 subsection may not exceed \$1,500,000 for each application.

29 * Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

A M E N D M E N T

OFFERED IN THE SENATE

TO: SCS CSHB 16(RES), Draft Version "V"

- 1 Page 2, line 15, following "by":
- 2 Insert "a natural gas"

23-LS0101\V
Chenoweth
4/1/03

SENATE CS FOR CS FOR HOUSE BILL NO. 16(RES)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY THE SENATE RESOURCES COMMITTEE

Offered:
Referred:

Sponsor(s): REPRESENTATIVES FATE, Whitaker, Chenault, Holm, Kohring, Heinze, Crawford,
Guttenberg, Lynn

A BILL

FOR AN ACT ENTITLED

1 "An Act amending, for purposes of the Alaska Stranded Gas Development Act, the
2 standards applicable to determining whether a proposed new investment constitutes a
3 qualified project, the standards used to determine whether a person or group qualifies
4 as a project sponsor or project sponsor group, and the deadline for applications relating
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16 pipeline to one or more markets, together with any associated processing
17 or treatment; or

18 (B) [IS A PROJECT FOR] the export of liquefied natural gas
19 from the state to one or more other states or countries;

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

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

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22 applicant to reimburse the state for the reasonable expenses of independent
23 contractors [AN INDEPENDENT CONTRACTOR] under this section. A
24 reimbursement of expenses that is required in an agreement authorized by this
25 subsection may not exceed \$1,500,000 for each application.

26 * Sec. 6. This Act takes effect immediately under AS 01.10.070(c).

ALASKA STATE LEGISLATURE

House of Representatives

Representative Hugh (Bud) Fate

State Capitol, Room 128
Juneau, AK 99801
Phone: (907) 465-4976
Fax: (907) 465-3883
Toll Free: (866) 465-4976



Chair Resources
Member:
Military & Veterans Affairs
Oil & Gas
Transportation

Sponsor Statement

CS for House Bill 16

“An Act amending, for purposes of the Alaska Stranded Gas Development Act, the standards applicable to determining whether a proposed new investment constitutes a qualified project, the standards used to determine whether a person or group qualifies as a project sponsor or project sponsor group, and the deadline for applications relating to the development of contracts for payments in lieu of taxes and for royalty adjustments that may be submitted for consideration, and modifying the conditions bearing on the use of independent contractors to evaluate applications or to develop contract terms; providing statements of intent for the Act relating to use of project labor agreements and to reopening of contracts; and providing for an effective date.”

House Bill 16 is cleanup language for the qualification and application procedures the Commissioners of Natural Resources, Revenue, or Labor and Workforce Development may use when considering a project involving natural gas. The changes update the language in order to allow continued interest in the development of the resource. By expanding the areas of potential gas exploration and development that fall under the Act.

Presently, statute only allows for natural gas projects if the product is to be exported in a liquefied form. HB 16 resolves this limitation, by expanding gas development and transportation in any form. With a lowering of the bar in capitol net assets and lines of credit, it expands the potential for a number of companies including those in Alaska, to become a part of the pipeline project.

When the Alaska Stranded Gas Development Act was passed, the language included an application deadline of June 30, 2001. HB 16 extends that deadline so the state and producers can resume contract negotiations with a clear understanding that the goal is the development of Alaska's natural gas for in-state, foreign and domestic markets.

Alaska State Legislature
House of Representatives
Representative Hugh "Bud" Fate



State Capitol, Room 128
Juneau, AK 99801
Phone: (907) 465-4976
Fax: (907) 465-3883
Toll Free: (866) 465-4976

Chair Resources
Member:
Energy Council
Military & Veterans Affairs
Oil & Gas
Transportation

Memorandum

To: Senator Scott Ogan, Chair Senate Resources Committee
Fm: Jim Pound, Chief of Staff
Cc:
Date: March 27, 2003
Re: CS for HB 16 (FIN) am

Please accept this memo and attached documents as a request for the Senate Resources Committee to hear CS for House Bill 16 (FIN) am, "STRANDED GAS DEVELOPMENT ACT AMENDMENTS." This legislation updates existing language allowing for the development and delivery of Alaska natural gas within the state and to other markets. It modifies the qualifications for persons or groups to submit applications and extends the deadline.

Thanks you for your consideration of this Bill.

Attached: Sponsor Statement, HB 16-CSHB 16(FIN)am, Fiscal Notes: DCED, DNR, DOR, Journal Text for Oil & Gas, Resources, and Finance Committees and House Floor, Support Letter, Copy of AS 43.82

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSHB 16(O&G)
(H) Publish Date: 2/28/03

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
Title Stranded Oil & Gas Development Act BRU Regulatory Commission of Alaska (399)
Amendments Component Regulatory Commission of Alaska
Sponsor Representative Fate
Requester House Oil & Gas Component No. 2417

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill has no fiscal impact on this agency.

Prepared by: G. Nanette Thompson, Chair Phone 907-276-6222
Division Regulatory Commission of Alaska Date/Time 2/5/03 6:00 PM
Approved by: Edgar Blatchford, Commissioner Date 2/5/2003
Agency Department of Community & Economic Development

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: CSHB 16(O&G)
 (H) Publish Date: 2/28/03

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
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Amendments Component Regulatory Commission of Alaska
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Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
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						
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CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2003) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill has no fiscal impact on this agency.

Prepared by: G. Nanette Thompson, Chair
 Division Regulatory Commission of Alaska
 Approved by: Edgar Blatchford, Commissioner
 Agency Department of Community & Economic Development

Phone 907-276-6222
 Date/Time 2/5/03 6:00 PM
 Date 2/5/2003

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: CSHB 16(O&G)
 (H) Publish Date: 2/28/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title: Stranded Gas Development Act Amend. BRU: Oil and Gas Development
 Component: Oil and Gas Development
 Sponsor: Fate
 Requester: House Oil and Gas Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel	10.0	10.0				
Contractual	289.0	289.0				
Supplies	1.0	1.0				
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	300.0	300.0	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	300.0	300.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	300.0	300.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

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

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

Under AS 43.82.220, the state is responsible for evaluating and negotiating contract terms relating to royalties.

Prepared by: Mark D. Myers Phone 269-8800
 Division: Oil and Gas Date/Time 2/5/03 11:12 AM
 Approved by: Tom Irwin Date 2/5/2003
 Agency: Natural Resources

FISCAL NOTE #2

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. CSHB 16(O&G)

ANALYSIS CONTINUATION

Pursuant to these responsibilities, DNR is requesting a total of \$600,000 over a two-year period.

The line item breakdown for the two years is as follows:

Contractual:

\$550,000 is to fund contractual services and advice from experts in technical, fiscal, regulatory, contract negotiation, legal, and financial areas. These technical, evaluative, and negotiation services would be required to assist the state in substantive and complex contract development and negotiation, potentially with multiple sponsors. The state does not have all of this expertise in-house. \$75,000 of these costs will be incurred in preparation for the application process regardless of whether there are applicants.

As per the proposed bill, contract applications are not time-limited. Expenditures for contractual services, therefore, may be necessary any time. Furthermore, one North Slope producer has estimated that contract development and negotiations will take two years. Since there is no way of knowing now specifically when expenditures would be required, it may be beneficial to treat this \$550,000 as a continuing appropriation.

The proposed legislation allows reimbursement of the state by the applicant for the expenses of independent contractors used to assist in the evaluation of an application. Consequently, some or all of these expenditures may be recouped.

\$28.0 is for miscellaneous contractual expenditures such as purchase of technical reports and conference participation.

Other:

\$20.0 to fund the travel for negotiations, and \$2.0 for miscellaneous supplies.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: CSHB 16(O&G)
(H) Publish Date: 2/28/03

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Stranded Gas BRU Administration and Support
Development Act Amendments Component Commissioner's Office
Sponsor Representatives Fate and Whitaker
Requester House Oil and Gas Committee Component No. 123

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	89.5	89.5				
Travel	25.0	25.0				
Contractual	150.0	200.0				
Supplies	2.0	2.0				
Equipment	5.0	1.0				
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	271.5	317.5	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	121.5	117.5				
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Statutorily Designated Receipts	150.0	200.0				
TOTAL	271.5	317.5	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	1	1				
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached analysis.

Prepared by: Larry Persily, Deputy Commissioner
Division: Department of Revenue
Approved by: Larry Persily, Deputy Commissioner
Agency: Department of Revenue

Phone 465-5469
Date/Time 2/5/03 2:59 PM
Date 2/5/2003

FISCAL NOTE #3

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. CSHB 16(O&G)

ANALYSIS CONTINUATION

BILL DISCUSSION

The intent of the Stranded Gas Development Act, AS 43.82, is to provide a mechanism for achieving the fiscal certainty that potential project sponsors say they need before proceeding with the large investment needed to bring Alaska North Slope natural gas to market. The Act allows the state to negotiate a contract for payments in lieu of taxes with a project sponsor. This contract could cover all state and municipal taxes and royalties on a project, including state corporate income taxes, production taxes, royalties, state and municipal property taxes, and any special municipal assessments.

This bill (House Bill 16) would amend the 1998 Stranded Gas Development Act to:

- Expand the Act to include a natural gas pipeline to serve mid-America as an eligible project under the law. The existing statute limits the application of the Act to only liquefied natural gas projects. This change would allow sponsors of either an LNG project and/or a natural gas pipeline to mid-America to apply to the state under the provisions of the Act to negotiate a contract for payments in lieu of taxes. This amendment also would limit eligible applicants under the Act to only a natural gas pipeline to mid-America that would parallel the Trans-Alaska Pipeline System and the Alaska Highway, thereby eliminating from inclusion in the Act the so-called "over-the-top" route.
- Eliminate the June 30, 2001 deadline in existing statute for project applications. This legislation does not introduce a new deadline, but rather simply eliminates any deadline in statute.
- Add a requirement that only those projects producing gas from north 64 degrees north latitude (roughly Delta Junction) would qualify for the provisions of the Act.

OPERATING EXPENSES

The Act allows the Department of Revenue under AS 43.82.240 to recover from a project applicant the costs of contracting with an independent consultant to assist the state in evaluating applications submitted under the Act and in developing contract terms. Those statutorily designated program receipts are shown above.

The Act does not allow the state to seek reimbursement from a project applicant for any other costs. The department would hire a project manager for the estimated two years of contract development, negotiations and approval, and the personnel services, travel and equipment expenses for that position and other commissioner's office expenses are shown in the fiscal note as General Fund money.

The above costs are essentially the same as the Legislature approved for the Department of Revenue in passing the 1998 Stranded Gas Act.

The Stranded Gas Development Act

The Stranded Gas Development Act, AS 43.82, was passed into law by the Alaska Legislature in 1998. During the session it was House Bill 393. The application deadline for a project application under the Act was June 30, 2001. There were no applications by that date. Legislative action is required to reopen the option for a gas project developer. Such a reopener failed to win legislative approval last session, and has been introduced again this year as HB 16, sponsored by Representatives Fate and Whitaker.

The Act's genesis was in HB 250, which in 1997 established a North Slope Gas Commercialization Team in the administration to research and recommend changes to state law to encourage commercialization of North Slope gas. The team issued a report to the Governor in February 1998. The team's conclusions were that the project faced considerable risk, namely construction cost risk and gas price risk, and the state's fiscal system exacerbated those risks. Three of the risks of particular concern were fiscal uncertainty, the state's regressive tax system, and the front-end aspects of the fiscal system. We will discuss these in turn.

Given the high cost of the project, coupled with the volatility of gas prices, the project is financially risky. Given that the project is marginal under the current fiscal system, there is concern among potential project sponsors that if a project is started, the state could later modify the fiscal terms after the project had been built, changing its overall attractiveness to investors after they had invested. This is the fiscal uncertainty risk.

Second, there are two significant elements of the state's fiscal system that make it regressive. Regressivity means that the state's take in terms of share of the profits is high at low prices and low at high prices. Regressive systems exacerbate the risk of low prices to the project developers. First, the property tax is based on cost of the asset. The higher the cost, the higher the tax. Second, the basis of value for the severance tax and royalty is at the wellhead and does not consider capital and operating costs. Thus when capital and operating costs are high, and prices are low, the state's take is a high percentage of the low profits. (Regressive systems also reduce what the state's take could be at high prices, which means the state loses out on a greater slice of revenues during high prices and high profits.)

Third, the property tax makes for a front-end loaded system. The property tax is payable when construction begins, which could be several years before revenues start accruing. On a time value of money basis, this diminishes the rate of return on the project and exacerbates the risk of not recovering the investment.

Page 4 of 5
House Bill 16
Department of Revenue

After the team issued its report to the Governor, it worked with the major Prudhoe Bay producers to develop legislation to deal with these risks. The producers at the time had been studying commercializing gas through an LNG project to tidewater. The result was HB 393.

The law provided a mechanism for converting the state's fiscal system from a statutory basis to a contractual basis. This would provide for greater fiscal certainty. The fiscal system would be negotiated between the administration and the project sponsors and approved by the Legislature. And per the Act the contract terms could provide for a more progressive (less regressive) system.

The process for developing the contract was as follows: A sponsor would submit a project plan and application to the administration for contract negotiation. The project had to produce 500 billion cubic feet within 20 years and be an LNG export project. (The original bill called for any project. It was changed to only LNG during the legislative process.)

The sponsor group would negotiate fiscal terms with the state. Payments to the state would be made in-lieu of taxes. Fiscal terms would be customized to the specific project structure. The term of the contract could not exceed 35 years.

The commissioner of Revenue would be the primary agent for negotiating and implementing the contract. However, the commissioner of Natural Resources is also responsible for reviewing the project plan for acceptability, and for negotiating changes in royalty terms, if any.

The law allowed the commissioner of Revenue to use independent contractors to assist in the evaluation of any project application, and to condition the contract on an agreement with the project applicant that it would fully reimburse the state for the cost of the contractors retained for the state's analysis. The fiscal note for the legislation authorized the Department of Revenue to collect and expend those application fees to cover its contractor costs. The Legislature also approved General Fund money for the Department of Revenue to hire a full-time project coordinator for two years to help manage the application review and negotiations. That position was never filled because there was no project application.

In addition to replacing state oil and gas production taxes and corporate income taxes with a contract for payments, the Act also allowed the Revenue commissioner to include municipal sales taxes, municipal special assessments, state and municipal property taxes and any other state or municipal taxes in the negotiations. The intent was to wrap up as much as possible into the contract for payments in lieu of taxes.

Page 5 of 5
House Bill 16
Department of Revenue

Once a contract was developed, preliminary findings would be submitted to the governor. If the governor chose to proceed the preliminary findings would be given to the Legislature and the public. There would be a 30-day public review period.

After the review, the commissioner of Revenue would modify the contractual terms as appropriate and if acceptable to the sponsors. The final contract would be submitted to the governor. The governor would transmit the contract to the legislature with a request for authorization to execute the contract. Finally, the legislature would vote on it.

There was great concern by local municipalities that a contract could compromise the property tax revenues they might receive, especially given the concerns about the property tax discussed above. Accordingly, the Act requires that a portion of the payments due under the contract is paid to affected municipalities. Also, the law created a municipal advisory group to participate in developing contract terms.

The law also has provisions intended to help make gas available to communities, to promote local hire, and to deal with confidential information provided by the sponsors.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number: 4
Bill Version: CSHB 16(FIN)
(H) Publish Date: 3/19/03

Revision Date/Time (Note if correction): March 10, 2003 Dept. Affected: Revenue
Title: Stranded Gas BRU: Administration and Support
Development Act Amendments Component: Commissioner's Office
Sponsor: Representatives Fate and Whitaker
Requester: House Oil and Gas Committee Component No. 123

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services	89.5	89.5				
Travel	25.0	25.0				
Contractual	750.0	750.0				
Supplies	2.0	2.0				
Equipment	5.0	1.0				
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	871.5	867.5	0.0	0.0	0.0	0.0

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

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

1002 Federal Receipts						
1003 GF Match						
1004 GF	121.5	117.5				
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Statutorily Designated Receipts	750.0	750.0				
TOTAL	871.5	867.5	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time	1	1				
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached analysis.

Prepared by: Larry Persily, Deputy Commissioner Phone 465-5469
Division: Department of Revenue Date/Time 3/10/03 4:32 PM
Approved by: Larry Persily, Deputy Commissioner Date 3/10/2003
Agency: Department of Revenue

FISCAL NOTE #4

STATE OF ALASKA
2003 LEGISLATIVE SESSION

BILL NO. CSHB 16(FIN)

ANALYSIS CONTINUATION

The intent of the Stranded Gas Development Act, AS 43.82, is to provide a mechanism for achieving the fiscal certainty that potential project sponsors say they need before proceeding with the large investment needed to bring Alaska North Slope natural gas to market. The Act allows the state to negotiate a contract for payments in lieu of taxes with a project sponsor. This contract could cover all state and municipal taxes on a project, including state corporate income taxes, production taxes, state and municipal property taxes, and any special municipal assessments. The Act also allows for negotiation of gas valuation methods for use in determining state royalties.

This bill, CS HB16 (RES), would amend the 1998 Stranded Gas Development Act to:

- Expand the Act to include a natural gas pipeline to serve mid-America and gas-to-liquid (GTL) projects as eligible projects under the law. The existing statute limits the application of the Act to only liquefied natural gas projects. This change would allow sponsors of either an LNG project and/or a natural gas pipeline to mid-America and/or a GTL project to apply to the state under the provisions of the Act to negotiate a contract for payments in lieu of taxes.

- Replace the June 30, 2001 deadline in statute for applications with a new deadline of March 31, 2005.

- Impose a \$1.5 million limit on the reimburseable expenses the state may require the project applicant(s) to repay the state for independent contractors used in evaluating the application or in the development of the contract terms. The Act allows the state to obtain reimbursement from the project applicant(s) for these expenses, and this bill would impose a \$1.5 million on the reimbursement. The Act also is amended to require that the expenses be "reasonable and nonredundant."

- It is the intent of this legislation, and the administration, that the \$1.5 million limit would be shared between all state agencies involved with the project application. The Department of Revenue, under the Act, is the lead agency in this effort, and would share the reimburseable agreement funding with the Department of Law and Department of Natural Resources.

OPERATING EXPENSES

The Act allows the Department of Revenue under AS 43.82.240 to recover from a project applicant the costs of contracting with an independent consultant to assist the state in evaluating applications submitted under the Act and in developing contract terms. Those statutorily designated program receipts are shown above as the authority to receive and expend those funds.

The Act does not allow the state to seek reimbursement from a project applicant for any other costs. The Department of Revenue would hire a project manager for the estimated two years of contract development, negotiations and approval, and the personnel services, travel and equipment expenses for that position, and other commissioner's office expenses are shown as General Fund money.

The above costs are essentially the same as the Legislature approved for the Department of Revenue in passing the 1998 Stranded Gas Act.

The Stranded Gas Development Act

The Stranded Gas Development Act, AS 43.82, was passed into law by the Alaska Legislature in 1998. During the session it was House Bill 393. The application deadline for a project application under the Act was June 30, 2001. There were no applications by that date. Legislative action is required to reopen the option for a gas project developer. Such a reopener failed to win legislative approval last session, and has been introduced again this year as HB 16, sponsored by Representatives Fate and Whitaker.

The Act's genesis was in HB 250, which in 1997 established a North Slope Gas Commercialization Team in the administration to research and recommend changes to state law to encourage commercialization of North Slope gas. The team issued a report to the Governor in February 1998. The team's conclusions were that the project faced considerable risk, namely construction cost risk and gas price risk, and the state's fiscal system exacerbated those risks. Three of the risks of particular concern were fiscal uncertainty, the state's regressive tax system, and the front-end aspects of the fiscal system. We will discuss these in turn.

Given the high cost of the project, coupled with the volatility of gas prices, the project is financially risky. Given that the project is marginal under the current fiscal system, there is concern among potential project sponsors that if a project is started, the state could later modify the fiscal terms after the project had been built, changing its overall attractiveness to investors after they had invested. This is the fiscal uncertainty risk.

Second, there are two significant elements of the state's fiscal system that make it regressive. Regressivity means that the state's take in terms of share of the profits is high at low prices and low at high prices. Regressive systems exacerbate the risk of low prices to the project developers. First, the property tax is based on cost of the asset. The higher the cost, the higher the tax. Second, the basis of value for the severance tax and royalty is at the wellhead and does not consider capital and operating costs. Thus when capital and operating costs are high, and prices are low, the state's take is a high percentage of the low profits. (Regressive systems also reduce what the state's take could be at high prices, which means the state loses out on a greater slice of revenues during high prices and high profits.)

Third, the property tax makes for a front-end loaded system. The property tax is payable when construction begins, which could be several years before revenues start accruing. On a time value of money basis, this diminishes the rate of return on the project and exacerbates the risk of not recovering the investment.

Page 4 of 5 - FiscalNote #4
CSHB 16(FIN)
Department of Revenue

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The law provided a mechanism for converting the state's fiscal system from a statutory basis to a contractual basis. This would provide for greater fiscal certainty. The fiscal system would be negotiated between the administration and the project sponsors and approved by the Legislature. And per the Act the contract terms could provide for a more progressive (less regressive) system.

The process for developing the contract was as follows: A sponsor would submit a project plan and application to the administration for contract negotiation. The project had to produce 500 billion cubic feet within 20 years and be an LNG export project. (The original bill called for any project. It was changed to only LNG during the legislative process.)

The sponsor group would negotiate fiscal terms with the state. Payments to the state would be made in-lieu of taxes. Fiscal terms would be customized to the specific project structure. The term of the contract could not exceed 35 years.

The Revenue Commissioner would be the main agent for negotiating and implementing the contract. However, the Natural Resources Commissioner is also responsible for reviewing the project plan for acceptability, and for negotiating any changes in royalty issues. The only royalty provisions subject to negotiation under the Act are the gas valuation method and the timing of royalty in-kind and royalty in-value notices.

The law allowed the commissioner of Revenue to use independent contractors to assist in the evaluation of any project application, and to condition the contract on an agreement with the project applicant that it would fully reimburse the state for the cost of the contractors retained for the state's analysis. The fiscal note for the legislation authorized the Department of Revenue to collect and expend those application fees to cover its contractor costs. The Legislature in 1998 also approved General Fund money for the Department of Revenue to hire a full-time project coordinator for two years to help manage the application review and negotiations. That position was never filled because there was no project application.

(Note: It is the intent this year of CSHB16(Resources) that the Department of Revenue would share those reimbursable agreement funds with the Department of Law and Department of Natural Resources as necessary for those agencies to fulfill their work assignments in this effort.)

**Page 5 of 5 - Fiscal Note #4
CSHB 16(FIN)
Department of Revenue**

In addition to replacing state oil and gas production taxes and corporate income taxes with a contract for payments, the Act also allowed the Revenue commissioner to include municipal sales taxes, municipal special assessments, state and municipal property taxes and any other state or municipal taxes in the negotiations. The intent was to wrap up as much as possible into the contract for payments in lieu of taxes.

Once a contract was developed, preliminary findings would be submitted to the governor. If the governor chose to proceed the preliminary findings would be given to the Legislature and the public. There would be a 30-day public review period.

After the review, the commissioner of Revenue would modify the contractual terms as appropriate and if acceptable to the sponsors. The final contract would be submitted to the governor. The governor would transmit the contract to the legislature with a request for authorization to execute the contract. Finally, the legislature would vote on it.

There was great concern by local municipalities that a contract could compromise the property tax revenues they might receive, especially given the concerns about the property tax discussed above. Accordingly, the Act requires that a portion of the payments due under the contract is paid to affected municipalities. Also, the law created a municipal advisory group to participate in developing contract terms.

The law also has provisions intended to help make gas available to communities, to promote local hire, and to deal with confidential information provided by the sponsors.

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES



*Re: Testimony Before House Finance Committee, March 17, 2003
In Support of HB 16*

Dear Representative Williams and Representative Harris:

For the record, my name is Ken Thompson. I am the past President of ARCO Alaska, Inc. Currently I am the President and CEO of a new Alaska company called Pacific Star Energy LLC.

This letter is written in support of HB 16 being reviewed by the House Finance Committee. The timing is right to support this bill that will grant the Administration authority to negotiate fiscal terms with North Slope gas project sponsors so that a project can be expedited. It is my opinion that within the next 10 years, Alaska's natural gas will be needed in the Lower 48 where natural gas supply is declining more steeply than forecast and demand is continuing to climb.

Pacific Star Energy is a consortium of various Alaska companies across the State that are interested in having an equity investment ownership in any North Slope natural gas project. In the Alaska oil industry, not one Alaska company owns a sizeable equity ownership in North Slope oil production nor in the TAPS oil pipeline. Rather, in the oil industry, Alaska companies play the important role of service and support. However, when the North Slope natural gas industry evolves, several Alaska companies desire an equity ownership stake in the gas pipeline and ancillary natural gas businesses within the State. Pacific Star Energy has been formed to pool together these interested companies under one "umbrella" company that is financially strong and capable to own an equity interest in the gas pipeline.

If Pacific Star Energy has cash flow from a natural gas pipeline project, we will then play a vital role in building natural gas infrastructure within the State. Pacific Star Energy is interested in constructing "hub" distribution centers in Alaska, natural gas processing facilities for distribution of natural gas liquids such as propane and butane to interior communities, and interested in constructing spur pipelines to Fairbanks, Anchorage, and potentially Valdez.

To date, several companies have either approved or are obtaining final approval for initial investment in Pacific Star Energy. Five Alaska companies – Arctic Slope Regional Corporation; Cook Inlet Region, Inc.; Koniag, Inc.; Pacific Rim Leadership Development; and Jim Jansen of Lynden, Inc. – have approved startup funding for this new consortium company. Several other companies in February and March have expressed interest in investing and plan to review investment in this consortium company with their Board of Directors in April: Ahtna, Inc.; Chugach Alaska; Doyon Ltd.; Nana, Inc.; Sealaska Corporation; and Enstar Natural Gas. We are hopeful some if not all of these companies approve investment in Pacific Star Energy. Discussions are also planned with 5-10 other Alaska companies and institutions to continue building a financially strong and broad coalition of Alaska companies to invest in the North Slope natural gas project.

Pacific Star Energy will be working cooperatively with the major producers over the next years to show that our consortium of Alaska companies can participate alongside them and add positive value to any North Slope natural gas project. Pacific Star Energy can provide assistance in: 1) obtaining pipeline permitting across Native and other lands, 2) assist in government relationships, 3) foster investments in in-state natural gas use and value added processing, 4) assist in transportation arrangements of gas owned by smaller producers and the State in-kind royalty gas, and 5) keep more profits within the State to help the State economy.

Our coalition of Alaska companies – Pacific Star Energy – supports approval of HB 16.

***Re: Testimony To Senate Resources Committee, March 28, 2003
In Support of SB 92, Alaska Stranded Gas Development Act***

Dear Senator Ogan:

Introduction

For the record, my name is Ken Thompson from Anchorage, Alaska. I am the past President of ARCO Alaska, Inc. Currently I am the President and CEO of a new Alaska company called Pacific Star Energy LLC.

Support of SB 92

This letter is written in support of SB 92, the Alaska Stranded Gas Development Act, being held by the Senate Resources Committee. I do have a few additional recommendations, however, as mentioned below. SB 92 is a counterpart bill to House Bill 16 that passed the House unanimously on March 26, 2003. The timing is right to support this bill that will grant the Administration authority to negotiate fiscal terms with North Slope gas project sponsors so that a project can be expedited. It is my opinion that within the next 10 years, Alaska's natural gas will be needed in the Lower 48 where natural gas supply is declining more steeply than forecast and demand is continuing to climb.

Recommended Changes to SB 92 to Agree With HB 16

Importantly, there are key elements in HB 16 that should be endorsed by the Senate but which are different from the current SB 92 version. HB 16 requires an application for a fiscal contract from a gas project sponsor or group of sponsors to be received by the Commissioners of DOR or DNR no later than March 31, 2005. SB 92 stipulates a later deadline of June 30, 2006. I urge the deadline of March 31, 2005, as two more years is more than adequate time to move forward with a gas project considering the multiple years of work and studies already completed. More importantly, the gas market timing is right in my opinion for Alaska gas to enter the Lower 48 market by 2011-12 to prevent being offset by additional importation of LNG from foreign countries. To meet the 2011-12 gas sales timetable, a project must be sanctioned before late 2004 or early 2005. I urge the Senate to also stipulate a deadline of March 31, 2005, for a project sponsor or group of sponsors to submit an application for a contract.

Also, HB 16 made some very important changes to the qualifications of a "sponsor" or "sponsor group", and I urge the Senate to also endorse these changes. Under the old Stranded Gas Act, a sponsor had to have a net worth equal to 33% of the estimated cost of constructing a project. HB 16 amended this to allow a sponsor to have a net worth of 10% of the estimated project cost. Another stipulation in the old Stranded Gas Act was that a sponsor had to have an unused line of credit equal to 25% of the estimated cost of constructing a project; HB 16 changed this to 15%. Pacific Star Energy urges the Senate to also adopt these changes. Only one, but not both, these stipulations must be met to qualify as a sponsor along with other options for qualification in HB 16.

Pacific Star Energy – A Consortium of Alaska Companies Interested In Gas Investment

Pacific Star Energy is a consortium of various Alaska companies across the State that is interested in having an equity investment ownership in any North Slope natural gas project. In the Alaska oil industry, not one Alaskan company owns a sizeable equity ownership in North Slope oil production or in the TAPS oil pipeline. Rather, in the oil industry, Alaska companies play the important role of service and support. However, when the North Slope natural gas industry evolves, several Alaska companies desire an equity ownership stake in the gas pipeline and ancillary natural gas businesses within the State. Pacific Star Energy has been formed to pool together these interested companies under one "umbrella" company that is financially strong and capable to own an equity interest in the gas pipeline.

If Pacific Star Energy has cash flow from a natural gas pipeline project, we will then play a vital role in building natural gas infrastructure within the State. Pacific Star Energy is interested in constructing "hub" distribution centers in Alaska, natural gas processing facilities for distribution of natural gas liquids such as propane and butane to interior communities, and interested in constructing spur pipelines to Fairbanks, Anchorage, and potentially Valdez.

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Discussions are also planned throughout this year with numerous other qualified Alaska companies and institutions to continue building a financially strong and broad coalition of Alaska companies to invest in the North Slope natural gas project.

Pacific Star Energy will be working cooperatively with the major producers over the next few years to show that our consortium of Alaska companies can participate alongside them and add positive value to any North Slope natural gas project. Pacific Star Energy can provide assistance in: 1) obtaining pipeline permitting across Native and other lands, 2) assist in government relationships, 3) foster investments in in-state natural gas use and value added processing, 4) assist in transportation arrangements of gas owned by smaller producers and the State in-kind royalty gas, and 5) keep more profits within the State to help the State economy.

Our coalition of Alaska companies – Pacific Star Energy – supports approval of SB 92 with the changes to agree with HB 16.

Respectfully submitted,

Ken Thompson

3/28/2003



217 Second Street, Suite 200 • Juneau, Alaska 99801
Tel (907) 586-1325 • Fax (907) 463-5480 • www.akml.org

April 4, 2003

Senator Scott Ogan
Chair, Senate Resources Committee
State Capitol, Room 103
Juneau, AK 99801

Re: H.B. 16

Dear Senator Ogan,

The Alaska Municipal League (AML) Legislative Committee has not taken a specific position on this bill.

However, the AML Policy Statement reads:

the League opposes unilateral state preemption of a local municipality's ability to tax [a] pipeline and pipeline facilities. The program should be structured in such a way to include a provision for a PILT program or other guaranteed mechanism[s] for municipalities to levy local taxes.

Given the AML policy position on state preemption of the local ability to levy normal property and other local taxes, AML would not be in support of efforts to expand the scope of projects for which the state may preempt local taxing authority without provisions for giving impacted municipalities a "seat at the table" for negotiations.

Sincerely,

Kevin Ritchie
Executive Director

Subject: Testimony In Support of SB 92 With Changes

Date: Thu, 27 Mar 2003 17:54:48 -0900

From: "Ken Thompson \PSE\" <ken@pacificstarenergy.com>

To: "Senator Scott Ogan" <Senator_Scott_Ogan@legis.state.ak.us>,
"Senator Thomas Wagoner" <Senator_Thomas_Wagoner@legis.state.ak.us>,
"Senator Fred Dyson" <Senator_Fred_Dyson@legis.state.ak.us>,
"Senator Ralph Seekins" <Senator_Ralph_Seekins@legis.state.ak.us>,
"Senator Ben Stevens" <Senator_Ben_Stevens@legis.state.ak.us>,
"Senator Kim Elton" <Senator_Kim_Elton@legis.state.ak.us>,
"Senator Georgianna Lincoln" <Senator_Georgianna_Lincoln@legis.state.ak.us>

CC: "Ken Thompson \PSE\" <ken@pacificstarenergy.com>

Dear Senator Ogan and Members of the Senate Resources Committee, attached is a memo I wish to have entered as testimony in support of SB 92, the renewal of the Alaska Stranded Gas Development Act. SB 92 is the counterpart bill to House Bill 16 that unanimously passed the House on March 26, 2003. I urge that SB 92 be passed but with some changes that incorporate some key elements included in House Bill 16.

As past president of ARCO Alaska and as current CEO of Pacific Star Energy LLC, a new Alaska company, I believe the time is right to pass legislation that facilitates the timely progress of a North Slope gas project.

Pacific Star Energy is a consortium of various Alaska companies across the State that is interested in having an equity investment ownership in any North Slope natural gas project. In the Alaska oil industry, not one Alaskan company owns a sizeable equity ownership in North Slope oil production or in the TAPS oil pipeline. Rather, in the oil industry, Alaska companies play the important role of service and support. However, when the North Slope natural gas industry evolves, several Alaska companies desire an equity ownership stake in the gas pipeline and ancillary natural gas businesses within the State. Pacific Star Energy has been formed to pool together these interested companies under one "umbrella" company that is financially strong and capable to own an equity interest in the gas pipeline.<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

If Pacific Star Energy has cash flow from a natural gas pipeline project, we will then play a vital role in building natural gas infrastructure within the State. Pacific Star Energy is interested in constructing "hub" distribution centers in Alaska, natural gas processing facilities for distribution of natural gas liquids such as propane and butane to interior communities, and interested in constructing spur pipelines to Fairbanks, Anchorage, and potentially Valdez.

To date, several companies have either approved or are obtaining final approval for initial investment in Pacific Star Energy. Five Alaska companies – Cook Inlet Region, Inc.; Arctic Slope Regional Corporation; Jim Jansen of Lynden, Inc.; Pacific Rim Leadership Development LLC; and Kcniag, Inc. – have approved startup funding for this new consortium company. Several other companies in February and March have expressed interest in investing and plan to review investment in this consortium company with their Board of Directors in April: Enstar Natural Gas; Ahtna, Inc.; Chugach Alaska; Doyon Ltd.; Nana, Inc.; and Sealaska Corporation. We are hopeful some if not all of these companies approve investment in Pacific Star Energy.


Discussions are also planned throughout this year with numerous other qualified Alaska companies and institutions to continue building a financially strong and broad coalition of Alaska companies to invest in the North Slope natural gas project.

Pacific Star Energy will be working cooperatively with the major producers over the next few years to show that our consortium of Alaska companies can participate alongside them and add positive value to any North Slope natural gas project. Pacific Star Energy can provide assistance in: 1) obtaining pipeline permitting across Native and other lands, 2) assist in government relationships, 3) foster investments in in-state natural gas use and value added processing, 4) assist in transportation arrangements of gas owned by smaller producers and the State in-kind royalty gas, and 5) keep more profits within the State to help the State economy.

Our coalition of Alaska companies – Pacific Star Energy – supports approval of SB 92, the renewal of the Alaska Stranded Gas Development Act, with the changes to agree with HB 16.

Respectfully submitted,

Ken Thompson

 Support of SB 92 to Senate Resources Ctee.doc	Name: Support of SB 92 to Senate Resources Ctee.doc Type: WINWORD File (application/msword) Encoding: base64 Download Status: Not downloaded with message
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***Re: Testimony To Senate Resources Committee, March 28, 2003
In Support of SB 92, Alaska Stranded Gas Development Act***

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Importantly, there are key elements in HB 16 that should be endorsed by the Senate but which are different from the current SB 92 version. HB 16 requires an application for a fiscal contract from a gas project sponsor or group of sponsors to be received by the Commissioners of DOR or DNR no later than March 31, 2005. SB 92 stipulates a later deadline of June 30, 2006. I urge the deadline of March 31, 2005, as two more years is more than adequate time to move forward with a gas project considering the multiple years of work and studies already completed. More importantly, the gas market timing is right in my opinion for Alaska gas to enter the Lower 48 market by 2011-12 to prevent being offset by additional importation of LNG from foreign countries. To meet the 2011-12 gas sales timetable, a project must be sanctioned before late 2004 or early 2005. I urge the Senate to also stipulate a deadline of March 31, 2005, for a project sponsor or group of sponsors to submit an application for a contract.

Also, HB 16 made some very important changes to the qualifications of a "sponsor" or "sponsor group", and I urge the Senate to also endorse these changes. Under the old Stranded Gas Act, a sponsor had to have a net worth equal to 33% of the estimated cost of constructing a project. HB 16 amended this to allow a sponsor to have a net worth of 10% of the estimated project cost. Another stipulation in the old Stranded Gas Act was that a sponsor had to have an unused line of credit equal to 25% of the estimated cost of constructing a project; HB 16 changed this to 15%. Pacific Star Energy urges the Senate to also adopt these changes. Only one, but not both, these stipulations must be met to qualify as a sponsor along with other options for qualification in HB 16.

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Discussions are also planned throughout this year with numerous other qualified Alaska companies and institutions to continue building a financially strong and broad coalition of Alaska companies to invest in the North Slope natural gas project.

Pacific Star Energy will be working cooperatively with the major producers over the next few years to show that our consortium of Alaska companies can participate alongside them and add positive value to any North Slope natural gas project. Pacific Star Energy can provide assistance in: 1) obtaining pipeline permitting across Native and other lands, 2) assist in government relationships, 3) foster investments in in-state natural gas use and value added processing, 4) assist in transportation arrangements of gas owned by smaller producers and the State in-kind royalty gas, and 5) keep more profits within the State to help the State economy.

Our coalition of Alaska companies – Pacific Star Energy – supports approval of SB 92 with the changes to agree with HB 16.

Respectfully submitted,

Ken Thompson

3/28/2003



April 1, 2003

The Honorable Scott Ogan
Chairman, Senate Resources Committee
State Capitol (MS 3101)
Juneau, Alaska 99801-1182

APR - 8 2003

Re: Testimony To Senate Resources Committee, In Support of SB 92, Alaska Stranded Gas Development Act

Dear Senator Ogan:

For the record, my name is Barney Uhart from Anchorage, Alaska. I am the President of Chugach Alaska Corporation, the Alaska Native Regional Corporation for the Prince William Sound and Gulf Coast Region. Chugach believes that the gas line project will have significant economic benefits to Alaska, and that public policy makers can have a significant role in maximizing those benefits to Alaskans.

Chugach supports SB 92, the Alaska Stranded Gas Development Act, being held by the Senate Resources Committee. SB 92 is a counterpart bill to HB 16 that passed the House unanimously on March 26, 2003. Chugach believes the timing is right to support this bill that will grant the Administration authority to negotiate fiscal terms with North Slope gas project sponsors so that a project can be expedited. Supply and demand trends in the lower 48 strongly suggest that now is the time to move this long anticipated project forward, so the natural gas can be supplied to lower 48 markets to meet forecast demand by 2011-2012.

HB 16 differs from the current version of SB 92 in two important ways, and I urge the Senate to adopt these important provisions from the House bill. HB 16 requires an application for a fiscal contract from a gas project sponsor or group of sponsors to be received by the Commissioners of DOR or DNR no later than March 31, 2005. SB 92 stipulates a later deadline of June 30, 2006. I urge you to incorporate the March 31, 2005 deadline into SB 92. Two years is more than adequate time to move forward with a gas project considering the multiple years of work and studies already completed. Deferring the project beyond this date runs the risk of gas market demand being filled by competing sources, such as LNG imports.

HB 16 also made some very important changes to the qualifications of a "sponsor" or "sponsor group", and I urge the Senate to also endorse these changes. Under the old Stranded Gas Act, a sponsor had to have a net worth equal to 33% of the estimated cost

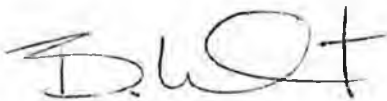
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of constructing a project. HB 16 amended this to allow a sponsor to have a net worth of 10% of the estimated project cost. Another stipulation in the old Stranded Gas Act was that a sponsor had to have an unused line of credit equal to 25% of the estimated cost of constructing a project; HB 16 changed this to 15%. Only one, but not both, these stipulations must be met to qualify as a sponsor along with other options for qualification in HB 16. Chugach urges the Senate to also adopt these changes.

Chugach anticipates participating in Pacific Star Energy, a consortium of Alaska Companies seeking participation in the gas line project through an ownership interest. Pacific Star Energy will be working cooperatively with the major producers over the next few years to show that our consortium of Alaska companies can participate alongside them and add positive value to any North Slope natural gas project. Pacific Star Energy can provide assistance in: 1) obtaining pipeline permitting across Native and other lands, 2) assist in government relationships, 3) foster investments in in-state natural gas use and value added processing, 4) assist in transportation arrangements of gas owned by smaller producers and the State in-kind royalty gas, and 5) keep more profits within the State to help the State economy.

By moving forward on the fiscal terms with the project sponsors, and encouraging producers to allow financially sound Alaska companies to participate in the ownership of the gas line, this project can come to fruition and provide maximum opportunities and benefits to Alaska, Alaskan companies and their shareholders.

Respectfully submitted,



Barney Uhart,
President

Cc: via email Senator Thomas Wagoner
Senator Fred Dyson
Senator Ralph Seekins
Senator Ben Stevens
Senator Kim Elton
Senator Georgianna Lincoln