

HB

177

4/10/07

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

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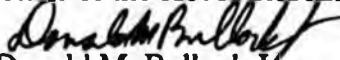
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 9, 2007

SUBJECT: Changes in CSHB 177(O&G) from HB 177
(Work Order No. 25-GH1060\M)

TO: Representative Carl Gatto
Chair of the House Resources Committee

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

You asked for a description of changes that appear in CSHB 177(O&G) compared with HB 177.

This memorandum is a summary and should not be considered a separate analysis of each of the two bills. What follows is a description of the concepts and provisions that are either new in the CS or are different from the original bill. For the policy issues behind the changes, you would be wise to contact the makers of amendments that are incorporated in the CS.

Structural and editing changes

The changes between the original bill and the CS are structural and substantive. The structural changes included moving the abandonment provision to the end of Article 2 so that it now appears after the section relating to license violations and damages in the CS. Also, provisions relating to the Alaska Gasline Inducement Act coordinator and expedited review and action by state agencies were moved from Article 3 to Article 2 because those provisions are directly related to the licensee. Finally, the provision relating to notice, review, and comment by the public was moved so that it precedes the section relating to application, evaluation, and ranking. These changes affect the numbering of the statutes that would be enacted by the bill, so be aware of these changes when comparing the original bill and the CS.

The CS also has changes made during editing to conform the style of the bill to the Manual of Legislative Drafting. For example, the words "the state" are used in the CS in place of "this state," except in a section distinguishing Alaska from another state.

Substantive changes

The following substantive changes from the original bill appear in the CS. Section numbers refer to the statutory section numbers in the CS. Where the section number varies from the original bill, the section number before the "/" is the number in the CS and the section number following the "/" is the section number in the original bill. For example, "Sec. 43.90.120/43.90.130" indicates that Sec. 43.90.120 in the CS contains similar subject matter to Sec. 43.90.130 in the original bill. Where a single section number appears, the number relates to similar subject matter in both bills. Only sections that were changed by the CS are discussed.

Section 1 of CSHB 177(O&G) contains the following changes:

Sec. 43.90.100. Language was added to state that the commissioner of revenue and the commissioner of natural resources act jointly.

Sec. 43.90.110. Language was added to state that the contribution by the state is subject to appropriation; that the contribution is to be paid during the five years immediately following the issuance of the license; that the amount of the contribution is to be set in the license and that the state's contribution will not exceed 50% of the qualified expenditures before the end of the first binding open season; and that the commissioner of revenue is to adopt regulations for determining whether an expenditure is a qualified expenditure. Provides that the licensee will benefit from coordination with qualified training organizations that prepare individuals for employment in the construction and operation of the project.

Sec. 43.90.120/43.90.130. The CS requires the commissioners to begin the process for requesting applications for the license "as soon as practicable" after the effective date of the Act. An uncodified section would be enacted by sec. 6 of the CS that states the intent that the request for applications be issued within 90 days after the effective date. The CS also directs the commissioners to adopt regulations based on AS 36.30.550 - 36.30.699, to provide the appeal procedures relating to the solicitation of applications and the award of the license.

Sec. 43.90.130/43.90.140. The CS supplements the application requirements in the original bill and excludes the route described in AS 38.05.017(b) from consideration. Additional information is required relating to rates and charges for a project going through Canada and a project involving liquefaction and marine transportation. The CS adds language to the description of "commercially reasonable terms" in the context of capacity expansion. The CS also requires more information regarding the costs and operation of a North Slope gas treatment plant, including the identity of ownership and plan of operation. New requirements were added to require the licensee to waive the right to appeal the award of the license to another applicant or a decision not to award the license, to negotiate a project labor agreement, to commit to not include the state's cash contribution in the applicant's rate base and to use the contribution as a credit against the

licensee's cost of service, and to provide a detailed description of the applicant, related parties, and parties on whom the applicant intends to rely when developing the project.

Sec. 43.90.140/43.90.150. The CS adds authority for the commissioners to request additional information relating to the application from an applicant.

Sec. 43.90.150/43.90.160. The CS states that the commissioners determine information that initially may not be disclosed because it is either proprietary or a trade secret and describes what information may be considered proprietary. Under the CS, such information may not be disclosed except when the information was provided by an applicant that is awarded the license or was provided by an unsuccessful applicant who challenges the process of awarding the license or the award to another applicant.

Sec. 43.90.160/43.90.180. The CS allows information that is otherwise confidential to be disclosed to the legislative auditor, the head of the legislative finance division, agents and contractors of the legislative auditor and legislative finance division, and members of the legislature if the person to whom the disclosure is to be made requests the information and signs a confidentiality agreement prepared by the commissioners.

Sec. 43.90.170. The CS completely rewrote the application evaluation and ranking criteria. The CS requires the commissioners to evaluate proposed projects based on the net present value of the anticipated cash flow to the state and the likelihood of success for the project. The CS lists factors to be considered by the commissioners when evaluating the net present value of the anticipated cash flow to the state and the project's likelihood of success.

Sec. 43.90.180/43.90.190. The CS requires the commissioners to send notice of the proposed award of a license to the presiding officer of each house of the legislature. The CS also authorizes the commissioners to begin the process for soliciting license applications again if the commissioners find that no adequate application was received.

Sec. 43.90.190/43.90.200. The CS requires legislative approval in the form of a bill before the commissioners may issue a license. The bill to approve the license is to be introduced by the rules committee in each house. Under the CS, if the legislature fails to pass a bill, the license may not be issued and the commissioners may request new applications. The commissioners may award the license any time after the effective date of the Act. For purposes of appeal to the superior court, the date the license is issued is the date of the final administrative action relating to the issuance of the license.

Sec. 43.90.200/43.90.210. The CS uses language that recognizes the possibility that a project may be subject to either the Federal Energy Regulatory Commission (FERC) or the Regulatory Commission of Alaska (RCA), or both.

Sec. 43.90.210/43.90.220. The CS requires the commissioners to take into consideration the effect on net present value to the state or the likelihood of success for the project

when considering a modification or amendment to the project plan.

Sec. 43.90.220/43.90.230. The CS authorizes the audit of records of the entity actually receiving the state contributions rather than just the licensee. The CS also requires the commissioners to continue to have access to meetings and information of the licensee so long as the terms of the license apply.

Sec. 43.90.230/43.90.240. The CS provides the commissioners the option of requiring a licensee that does not cure a violation to assign to the state, or the state's designee, data, designs, contracts, and permits acquired by the licensee during the term of the license. If the commissioners revoke the license because of a violation, the licensee may not submit a new application if the commissioners solicit new applications, and the licensee must deliver to the state all data, designs, contracts, and permits that relate to the project and were acquired by the licensee during the term of the license.

Sec. 43.90.240/43.90.120. If the commissioners and the licensee disagree on the issue of whether the project is uneconomic, the CS provides that the issue is to be submitted to arbitration administered by the American Arbitration Association, rather than "an impartial third party" as provided in the original bill. The CS describes the expectations and the obligation of the state and the licensee if the decision by the arbitration panel finds the project is uneconomic or not uneconomic. If the project is uneconomic, the licensee is required to deliver to the state all data, designs, contracts, and permits that relate to the project after the state reimburses the licensee for qualified expenditures incurred and paid by the licensee.

Sec. 43.90.250/43.90.330. The CS places the Alaska Gasline Inducement Act coordinator in the office of the governor and requires the office of the governor to provide administrative support. The CS requires the person appointed to the position to be confirmed by the legislature and reconfirmed by the legislature following a general election at which a governor is elected. The CS allows the removal of the person appointed at the discretion of the governor. The CS establishes the salary for the position.

Sec. 43.90.260/43.90.340. The CS renumbers the section but makes no substantive change relating to the expedited review and action by state agencies.

Sec. 43.90.300. The CS states that a "lessee or other person" is eligible for the resource inducements and specifies that the resource inducements apply to gas produced on the North Slope. The CS adds the statement that the royalty inducement and tax inducement "are contractual."

Sec. 43.90.300. The CS requires the commissioner of natural resources to adopt regulations relating to the royalty inducement before the start of the first binding open season. The CS makes the required agreement relating to the protest or appeal before FERC a statutory requirement rather than a subject to be included in the regulations. The

CS requires the commissioner to "contractually amend" existing lease agreements with lessees that elect to have royalty obligations determined under the new regulations. Under the CS, a recipient of a royalty inducement may not protest or appeal a filing by the licensee to roll in expansion costs if FERC does not have a policy in effect that presumes that rolled-in rates apply. The CS requires the commissioner of natural resources to review the regulations to determine whether the regulations continue to "minimize retroactive adjustments to the monthly value of the state's royalty" and to amend the regulations if the retroactive adjustments are not being minimized.

Sec. 43.90.320. The CS requires the commissioner of revenue to issue a certificate providing for the tax inducement and states that "the certificate shall constitute a contract between the person [receiving the certificate] and the state." Under the CS, the certificate must be signed by both the person receiving the certificate and the commissioner of revenue. The certificate must include a contractual commitment that the holder of the certificate will not protest or appeal a filing by the licensee to roll in expansion costs if FERC does not have a policy in effect that presumes that rolled-in rates apply.

Sec. 43.90.400. The CS states that the Alaska Gasline Inducement Act matching contribution fund is not a dedicated fund and that money appropriated to the fund may be spent for the purposes of the fund without further appropriation.

Sec. 43.90.410. Under the CS, the commissioner of revenue may adopt regulations on behalf of the commissioners for the purpose of implementing the chapter.

Sec. 43.90.420. The CS refers to a court of "competent jurisdiction."

Sec. 43.90.430. The CS requires interest on delinquent payments to the state to be paid at the rate applicable to delinquent taxes.

Sec. 43.90.440. The CS limits the period for the project assurances to the period before the commencement of commercial operations and defines a "competing natural gas project" in terms of throughput and source of gas. The CS limits the basis for the payment of damages to the amount incurred and paid for expenditures that are qualified expenditures.

Sec. 43.90.450. The CS requires that an assignment of the licensee's interest may not diminish the likelihood of success of the project or the net present value of the license to the state. Under the CS, a person transferring the royalty and tax inducement must also transfer the firm transportation capacity in the project.

Sec. 43.90.460. This section is added in the CS to require the commissioner of labor and workforce development to develop a job training program for jobs related to the project.

Sec. 43.90.900. The CS adds definitions for "coordinator," "North Slope," "North Slope gas," and "open season." The CS expands the definition of "gas processing" to refer to

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the treatment of gas "downstream of the point of production."

Section 2 of the CS refers to the arbitration panel that determines whether a project is uneconomic.

Section 4 of the CS describes the period during which applications are not available for public inspection.

Section 5 of the CS is a new section that establishes the gas utility revolving loan fund.

Section 6 of the CS is a new section that expresses the intent that the request for applications be issued by the commissioners within 90 days after the effective date of the Act.

Section 7 of the CS is a new section that provides for the severability of a provision that is held invalid without affecting what remains of the Act.

Section 8 of the CS is a new section that states the conditions under which the section providing for the gas utility revolving loan fund may take effect.

Section 9 of the CS is a new section that identifies the date the section providing for the gas utility revolving loan fund takes effect if the conditions in sec. 8 are met.

Section 10. The CS provides for an immediate effective date except as provided in sec. 9.

DMB:med
07-225.med

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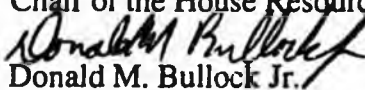
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 9, 2007

SUBJECT: Sectional summary of CSHB 177(O&G)
(Work Order No. 25-GH1060\M)

TO: Representative Carl Gatto
Chair of the House Resources Committee

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1. Adds a new chapter to AS 43.90 to include the Alaska Gasline Inducement Act. The chapter includes the following provisions:

AS 43.90.010. States the purpose of the chapter.

AS 43.90.100. Authorizes the commissioner of revenue and the commissioner of natural resources (commissioners) to act jointly and award a license for a gas pipeline project. Entitles a person awarded a license to receive the inducement in the next section.

AS 43.90.110. Provides for the inducement to a person awarded a license for a gas pipeline project. The inducement consists of cash contributions, the benefit of the Alaska Gasline Inducement Act coordinator, and the benefit of coordination with qualified training organizations.

AS 43.90.120. Requires the commissioners to begin the public process to solicit applications for a gas pipeline project. Authorizes the commissioners to use independent contractors to assist them in developing the application and evaluating applications that are received. Requires the commissioners to adopt regulations that provide a procedure for protests and appeals relating to the application process and award of a license.

AS 43.90.130. Lists the duties, information, commitments, project descriptions, and plans required to be submitted in an application.

AS 43.90.140. Requires the commissioners to review each application and identify applications that meet or do not meet the application requirements. Authorizes the commissioners to request additional information relating to an application that is not rejected.

AS 43.90.150. Provides for the protection and confidentiality of proprietary information and trade secrets, and describes when the information may be disclosed.

AS 43.90.160. Requires the commissioners to solicit public review and comment on all complete applications. Provides that applications are not public records until the notice for public review and comment is published, and requires an applicant to provide a summary of confidential information. Allows for limited disclosure to certain state officials who sign a confidentiality agreement.

AS 43.90.170. Provides the criteria for evaluating and ranking applications.

AS 43.90.180. Requires the commissioners to notify the presiding officer of each house of the legislature if the commissioners find that an application supports the issuance of a license. Requires the commissioners to make a finding if no application merits the issuance of a license. Authorizes the commissioners to begin a new application process if no application merits the issuance of the license.

AS 43.90.190. Requires the legislature to approve the issuance of a license by passing a bill. If the legislature fails to pass a bill authorizing the issuance of a license, authorizes the commissioners to request new applications.

AS 43.90.200. Requires a licensee to make certain financial commitments within a certain period of time after a certificate of public convenience and necessity is issued for the project. Provides remedies if the financial commitments are not made as required.

AS 43.90.210. Authorizes the commissioners to approve amendments or modifications to a project plan.

AS 43.90.220. Provides for the audit and inspection of the records of a person receiving state money for the project. Requires a licensee to provide the commissioners with access to meetings and information relating to the project so long as the terms of the license continue to apply.

AS 43.90.230. Provides the process for identifying and resolving violations of the license and remedies if a violation is not cured.

AS 43.90.240. Provides for the abandonment of the project if the project is found to be uneconomic. In case of disagreement between the licensee and the commissioners on the issue of whether the project is uneconomic, provides for the settlement of the dispute by

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an arbitration panel. If the project is uneconomic, requires the licensee to deliver to the state all designs, permits, data, and other information related to the project and provides the basis for determining the amount the state shall pay for what is delivered.

AS 43.90.250. Creates the position of Alaska Gasline Inducement Act coordinator and requires legislative confirmation and reconfirmation of a person appointed by the governor to the position.

AS 43.90.250. Provides for the expedited review and action by state agencies on issues relating to the project.

AS 43.90.300. Establishes the basic qualifications for a person to receive royalty and tax inducement for making a firm transportation commitment during the first binding open season for the project. Makes the royalty and tax resource inducement contractual.

AS 43.90.310. Provides a royalty inducement for a person qualifying under AS 43.90.300. Authorizes the amendment of lease contracts based on regulations adopted by the commissioner of natural resources that relate to the determination of the amount and value of the state's royalty interest. Requires the recipient of the royalty inducement to agree to certain limitations in a tariff proceeding.

AS 43.90.320. Provides for a limitation on the tax rate applicable to the production of gas qualifying for the inducement. Requires the commissioner of revenue to issue a certificate that is a contract providing for the inducement. Requires the recipient of the tax inducement to agree to certain limitations in a tariff proceeding.

AS 43.90.400. Creates the Alaska Gasline Inducement Act matching contribution fund and provides for the management of the fund. States that the fund is not a dedicated fund.

AS 43.90.410. Authorizes the commissioner of revenue to adopt regulations on behalf of the commissioners and each of the commissioners to make changes under separate authority that are necessary for the implementation of the chapter.

AS 43.90.420. Requires a person challenging either the constitutionality of the chapter or a license issued under the chapter to bring the action within 90 days after the date a license is issued.

AS 43.90.430. Requires a delinquent payment to the state under the chapter to bear interest at the rate applicable to delinquent taxes.

AS 43.90.440. Requires the state to pay a licensee three times the total amount of the costs that are incurred and paid by the licensee for qualified expenditures if the state extends to another person the preferential royalty, tax, or monetary treatment for the purpose of facilitating the construction of a competing natural gas pipeline project, and if

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the licensee is in compliance with the terms of the license and other legal requirements. Defines "competing natural gas project."

AS 43.90.450. Provides for assignments by the licensee and the recipients of the resource inducement upon approval by the commissioners.

AS 43.90.460. States that nothing in AS 43.90 shall be construed to conflict with other state or federal law governing the development or oversight of the project.

AS 43.90.470. Requires the commissioner of labor and workforce development to develop a job training program for jobs related to the construction and operation of the project.

AS 43.90.900. Defines terms used in the chapter.

Section 2. Exempts contracts for the arbitration panel and contracts for assistance in the development and evaluation of project applications from the procurement code.

Section 3. Makes the Alaska Gasline Inducement Act coordinator an exempt position.

Section 4. Exempts proprietary information, trade secrets, and license applications from public inspection, except as provided in AS 43.90.

Section 5. Establishes the gas utility revolving loan fund and provides for loans from the fund.

Section 6. States the intent that the first request for license applications be issued within 90 days after the effective date of the Act.

Section 7. Provides for severability if a provision of the Act is found invalid.

Section 8. Makes the creation of the gas utility revolving loan fund conditioned upon the issuance of a license for the project.

Section 9. If the condition in sec. 8 is satisfied, makes the section creating the gas utility revolving loan fund effective on the date a license is issued.

Section 10. Except as provided in sec. 9, makes the Act effective immediately.

DMB:med
07-226.med

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: HB 177
 (H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
 Title: Alaska Gasline Inducement Act RDU: AOGCC
 Component: AOGCC
 Sponsor: Rules Committee
 Requester: Governor Component No. 2010

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	0.0	0.0	0.0	0.0	0.0	0.0
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
1162 AOGCC Receipts	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation will not have a fiscal impact upon the Alaska Oil and Gas Conservation Commission.

Prepared by: Jody J. Colombie, Special Assistant I Phone 783-1221
 Division: Alaska Oil and Gas Conservation Commission Date/Time 3/2/07 3:19 PM
 Approved by: Rachael Petro, Deputy Commissioner Date 3/2/2007 1:00pm
 Agency: Department of Administration

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: HB 177
 (H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
 Title Alaska Gasline Inducements Act RDU Regulatory Commission of Alaska (399)
 Component Regulatory Commission of Alaska
 Sponsor Rules
 Requester By Request of the Governor Component No. 2417

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
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 (1141 RCA Receipts)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The Regulatory Commission of Alaska (RCA) regulates pipelines and pipeline carriers operating in Alaska under AS 42.06.140(a). AS 42.06.240 requires the RCA to issue a certificate of public convenience and necessity for pipeline carriers engaged in the intrastate transportation of oil or gas by pipeline, or constructing or extending pipeline facilities. To the extent this legislation results in the construction of an intrastate pipeline subject to RCA regulation, costs will be accounted for under the existing RCA structure.

The RCA's budget is funded through the Regulatory Cost Charge (RCC) mechanism and direct charge mechanisms. General funds are not allocated for support of the agency, nor are they anticipated to be necessary as a result of this legislation. The RCC is recalculated each year and allows the agency to recover its operating costs through an assessment on the revenues of economically regulated utilities and pipeline carriers.

Prepared by: Kate Giard, Chair
 Division: Regulatory Commission of Alaska
 Approved by: Emil Notti, Commissioner
 Agency: Commerce, Community, and Economic Development

Phone 907.276.6222
 Date/Time 2/28/07 3:06 PM
 Date 2/28/2007

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: HB 177
 (H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title Alaska Gasline Inducements Act RDU Resource Development
 Component Oil & Gas Development
 Sponsor Rules Committee
 Requester Governor Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
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						
CHANGE IN REVENUES ()						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipt's						
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 (FY2007) cost: 6,550.0 ** Requested as a capital project
 Mark this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
 **This fiscal note represents the gasline-related supplemental requested in HB138/SB82, Section 2 (a). This was requested as a capital project with an effective date of February 1, 2007.

Section 2(a) - \$6,550,000 general fund for gas pipeline analysis projects. This funding will be used to pay for consultants to advise the state on the structure of an RFP for gasline proposals; and to cover the cost of outside experts and legal counsel on federal pipeline law and the FERC process. DNR estimates that \$4,135,000 will be expended in FY07, and \$2,415,000 in FY08.

Prepared by: Kevin Banks, Acting Director Phone 907-269-8800
 Division Oil & Gas Date/Time 3/1/2007
 Approved by: Tom Irwin, Commissioner Date 3/1/2007
 Agency Natural Resources

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 4
 Bill Version: HB 177
 (H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title: Alaska Gasline Inducement Act RDU: Resource Development
 Component: Alaska Gasline Inducements Act
 Sponsor: Rules Committee
 Requester: Governor Component No. new

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	281.3	612.2	612.2	612.2	612.2	612.2
Travel	20.0	20.0	20.0	20.0	20.0	20.0
Contractual	10.8	27.0	27.0	27.0	27.0	27.0
Supplies	10.0	19.0	10.0	10.0	10.0	10.0
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	302.1	678.2	669.2	669.2	669.2	669.2

CAPITAL EXPENDITURES	500,000.0*					
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	302.1	678.2	669.2	669.2	669.2	669.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type—Do not abbreviate)						
TOTAL	302.1	678.2	669.2	669.2	669.2	669.2

Estimate of any current year (FY2007) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time	2	5	5	5	5	5
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill authorizes the Alaska Gasline Inducement Act (AGIA) which would create a competitive public process for inviting applications for a license under this Act. The application process would include certain application requirements before an application can be considered as well as criteria by which the Commissioners of Natural Resources and Revenue will evaluate all qualifying applications.

The Act would also create inducements including: state matching contributions for pipeline construction in an amount not to exceed \$500 million and the benefit of a state gas pipeline coordinator.

Under the AGIA, the licensee or its designated affiliate would be entitled to state matching contributions for qualified expenditures (post license costs incurred by the licensee that are directly and reasonably related to obtaining a certificate of public necessity and convenience from the FERC or RCA for development of the project).

(Continued on next page).

Prepared by: Kevin Banks, Acting Director Phone 269-8800
 Division: Oil and Gas Date/Time 2/28/2007
 Approved by: Tom Irwin, Commissioner Date 2/28/2007
 Agency: Natural Resources

FISCAL NOTE #4

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. HB 177

ANALYSIS CONTINUATION

Until the close of the first binding season, the state will match equally the licensee's qualified expenditures. After the close of the first binding open season, the state shall match the qualified expenditures at a level specified in the license but the amount may be no greater than 80 percent. Over a five year period, these contributions may not exceed \$500 million. The present value of the state's total \$500 million contribution would be roughly \$415 million, because state spending will be spread over several years.

AGIA will generate a number of project benefits that could more than offset its costs. The size of these benefits will depend on ultimate project scope and market prices, which AGIA leaves to the competitive process. Actual benefits will vary depending upon project terminus (Alberta, Chicago), size (1.2 Bcf/day, 4.5 Bcf/day), mode of transport (pipeline only, pipeline plus LNG facilities), among other things. Illustrative benefits shown here assume a 4.3 Bcf/day project to Alberta, Canada with a construction cost that is 50% greater than assumed in 2001. Results are presented in present value dollars, assuming a discount rate of 5%, to recognize that a dollar of state benefit received in the future will be worth less than a dollar spent today.

First, AGIA is likely to result in a project sooner than if no pipeline legislation is passed. By having the state agree to shoulder a large share of the up-front capital that is particularly risky, AGIA ensures that in exchange project proponents commit to move the project forward past clearly defined benchmarks. Because AGIA results in a project sooner, the current value of project revenues to the state is enhanced. Assuming a gas price of \$5.50, if AGIA accelerates project startup by one year, from 2017 to 2016, state benefits will exceed \$1.6 billion; a two-year acceleration in the project returns \$3.2 billion; a three-year acceleration generates \$4.9 billion.

Second, AGIA's requirement of a minimum 70 percent share of debt in the determination of tariffs ensures that the state will not pay unnecessarily high transportation costs. Without this protection, project tariffs could be calculated on the basis of 60 or even 50 percent debt and still pass regulatory scrutiny. The tariff benefits of a 70 percent debt structure, rather than 60 percent or 50 percent, are 26 cents and 55 cents per MMBtu, respectively. The savings to the state are \$1.25 billion and \$2.63 billion, respectively. Meanwhile, lower tariffs improve project economics for holders of both existing and yet to be discovered gas reserves, thereby increasing the likelihood that the project will commence sooner. The degree to which such savings are realized depends on how, absent AGIA's requirements, project tariffs would otherwise have been determined.

Third, AGIA's pipeline access provisions promise to increase competition for exploration and development of Alaska's gas resources, leading to earlier and more significant pipeline expansions. The value to the state of such expansions is scenario specific, and cannot be accurately predicted. That said, if AGIA's expansion provisions caused the pipeline to expand by 10% in year 3 of its operations, whereas without AGIA such an expansion would not occur, the increase in state royalty and taxes would be roughly \$3 billion in today's dollars. Even if the chances that such an expansion would otherwise not occur were only one in five the AGIA investment of \$500 million would more than pay for itself in this provision alone.

Finally, AGIA will directly ensure lower tariffs. The state's direct investment in up-front development costs would reduce the cost of moving gas to Alberta by roughly 4 cents. The present value royalty and tax benefits of this 4 cent tariff reduction come to \$183 million. Put differently, assuming \$5.50 gas prices, during pipeline operation the state will receive roughly 45% of the value of its contribution in increased royalty and production tax benefits. And at gas prices of \$7.50 or higher the state's up-front contribution actually generates more in royalty and tax benefits than it costs.

The state gas pipeline coordinator will help expedite the review and coordination of all state and federal permits and processes, ensure that all state and federal environmental requirements have been completed, and coordinate with the federal coordinator for natural gas transportation projects in Alaska. It is this position's responsibility to ensure that no steps have been missed that may slow down the construction of the pipeline and that the state's involvement in the Federal EIS process facilitates expeditious permitting.

The state gas pipeline coordinator is an exempt position (Range 26M \$209,000). To assist the state coordinator, four additional positions would be needed: a Pipeline Engineer (Range 26D \$150,900), a Natural Resource Specialist IV with knowledge of state and federal environmental regulations and administrative procedure (Range 21C \$108,900), a Natural Resource Specialist III to assist with title work (Range 18C \$91,100), and an Administrative Clerk II (Range 8 \$52,300). It is anticipated that the state coordinator and clerk would begin in FY 08. There will be travel associated with the functions of at least two of these positions. All of the positions will sunset one year after commencement of the gas pipeline commercial operations.

This fiscal note assumes that the FY07 Supplemental Appropriation for Gasline requested in HB138/SB82-Sec2(a&b) will be fully funded.

* \$300,000,000 was appropriated last year (SLA2006/Ch13/Sec14) from the general fund to Alaska Housing Finance Corporation for the purpose of funding capital projects including financing expenses and may be available to partially fund the matching grant.

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 5
 Bill Version: HB 177
 (H) Publish Date: 3/5/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title AGIA RDU Administration & Support
 Component Natural Gas Commercialization
 Sponsor Governor
 Requester Rules Committee Component No. 2859

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	294.0	294.0	294.0	294.0	294.0	294.0
Travel	25.0	25.0	25.0	25.0	25.0	25.0
Contractual	1,897.0	900.0	450.0	10.0	10.0	10.0
Supplies	10.0	2.0	2.0	2.0	2.0	2.0
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	2,226.0	1,221.0	771.0	331.0	331.0	331.0

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	2,226.0	1,221.0	771.0	331.0	331.0	331.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	2,226.0	1,221.0	771.0	331.0	331.0	331.0

Estimate of any current year (FY2007) cost: 784.0

Check this box (X) if funding for this bill is included in the Governor's FY 2008 budget proposal:

POSITIONS

Full-time	2	2	2	2	2	2
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Operating expenditures include costs for 2 additional economists/commercial analysts in exempt positions. These positions would be used to draft the tax related provisions of the request for application, assess economic viability of projects contained in applications, including economic impacts on future state revenues and value of inducements, and develop the Department's recommendations for changes to the existing gas production tax statutes and regulations that will need to be in place as inducement for producer's gas commitments under the Alaska Gasline Inducements Act. In addition, property tax impacts of pipeline construction to state and municipal revenues will need to be understood and forecasted.

Prepared by: Roger Marks Phone 269-0082
 Division: Tax Division Date/Time 2/28/07 12:00 AM
 Approved by: Jerry Burnett Date 2/28/2007
 Agency: Department of Revenue

FISCAL NOTE #5

**STATE OF ALASKA
2007 LEGISLATIVE SESSION**

BILL NO. HB 177

ANALYSIS CONTINUATION

Contractual expenditures include assistance in formulating revisions to the tax structure, studying comparative international fiscal systems for gas to ensure changes to state's gas production taxes leave Alaska in a globally competitive position, and writing regulations.

Other contractual costs are for legal support for attorneys/law firms with appropriate specialties outside of AGs office to advise us on tax structures and creation of new tax structure; assessment of legal issues and impediments to marketing options now being considered to assist in evaluation of projects; and legal assessment of financial covenants impacting state and its project selection in standard commercial financing arrangements and governmentally guaranteed financing scenarios.

The FY 2008 costs are also in the Oil & Gas Supplemental Bill (SB 82). In addition, that Bill contains FY 2007 costs of \$123,000 personal services, \$425,000 contractual, \$10,000 travel, and \$365,000 legal support.

SARAH PALIN
GOVERNOR
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March 2, 2007

The Honorable Lyda Green
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Green:

Under the authority of Article III, Section 18, of the Alaska Constitution, I am transmitting a bill that facilitates commercialization of Alaska's North Slope natural gas resources and promotes continued exploration and development of those resources. The bill will induce expeditious construction of a natural gas pipeline to transport Alaska's North Slope natural gas to market using a process that is fair, transparent, and competitive. Our nation's energy markets are hungry for Alaska's gas resources, and Alaskans have waited for decades to see these resources developed.

Earlier this week I had several successful meetings with federal officials in Washington, D.C., including the distinguished members of Alaska's Congressional delegation. These meetings affirmed for me that it is time for Alaska's natural gas resources to be developed in order to meet the energy demands of our nation. The Chairman of the Federal Energy Regulatory Commission, Joseph Kelliher, made the statement that my plan does "represent the best hope for building a pipeline to bring Alaska's vast natural gas resources to the energy consuming lower 48 states."

This bill sets forth the following: (a) midstream inducements to encourage companies to identify development benchmarks and build the gas pipeline; (b) upstream inducements that will encourage the holders of North Slope gas reserves to commit their gas to the project; (c) terms that an application must contain to qualify to compete for an exclusive license to the midstream inducements; (d) evaluative criteria by which competing applications will be measured; (e) a public process for reviewing the applications; (f) a procedure by which the applications will be reviewed and a notice of intent to issue a license that will be transmitted to the legislature; and (g) auditing and enforcement tools to protect state contributions and interests.

The Honorable Lyda Green

March 2, 2007

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The midstream inducements will include a matching contribution of up to \$500 million paid out during the highest risk phase of the project, which is the period the licensee is completing the work necessary to obtain a certificate from either the Federal Energy Regulatory Commission (FERC) or the Regulatory Commission of Alaska (RCA). The licensed project will also benefit from a state program that provides training to Alaskans for gas pipeline jobs.

The bill offers explicit requirements that state permits and authorizations relating to the pipeline be expedited and coordinated in order to avoid complicated, time-consuming and conflicting state and federal permitting processes. In order to facilitate a successful project and an expedient process, the bill will empower the governor to appoint a gas pipeline coordinator to oversee the state permitting process and work with the federal pipeline coordinator to integrate the state and federal permitting processes.

The upstream inducements will encourage those who hold gas reserves under lease to commit that gas to the pipeline licensed under the bill. Under the "royalty inducements," the state will develop regulations to provide predictability in the determination of royalty value and the exercise of its right to take its royalty share in kind (as gas) or in value (as money). A "gas production tax exemption" will give shippers of gas an exemption from production tax equal to the difference between the tax obligation based upon the tax rate in affect at Open Season, and any higher rate that becomes effective in the ten years following commencement of the gas pipeline commercial operations. These provisions address leaseholders' concerns that they need to know how their royalty and tax obligations will be measured for a reasonable period into the future before they irrevocably commit to ship their gas at an Open Season. The benefits will be available to all leaseholders who commit gas to the licensed gas pipeline project during the initial Open Season.

The bill will accomplish six primary goals: (1) initiate an application process open to any project sponsor; (2) take clear steps to promote the construction of a gas pipeline as quickly as possible, (3) ensure the North Slope basin is open to long-term gas exploration and development, (4) ensure reasonable tariff rates are available to transport Alaska's natural gas to market, (5) ensure North Slope natural gas is available to Alaskans, and (6) ensure Alaskans are trained and ready for the natural gas pipeline jobs and those jobs are made available to Alaskans.

To accomplish the first goal, applications will be welcomed from any entity or a coalition of entities interested in constructing the gas pipeline. However, only those

The Honorable Lyda Green

March 2, 2007

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applications that fulfill the "qualifying application requirements" will be considered for the license to the midstream inducement package.

To accomplish the second goal, the bill will require that applications provide a detailed description of the applicant's proposed project, including route, size, design capacity, timeline and budget. Applicants must agree to hold an Open Season (to solicit firm commitments to ship gas on the pipeline) within three years of getting the license, and will detail steps toward obtaining a Certificate of Public Convenience and Necessity from FERC or the RCA. The state gas pipeline coordinator will also ensure an expeditious regulatory process.

To accomplish the third goal, applicants must commit to expanding the pipeline project when new gas is available. There is currently more than 35 trillion cubic feet (Tcf) of proven reserves of natural gas on Alaska's North Slope. However, most geologists agree that there is many times that amount of North Slope gas awaiting discovery. By ensuring that the pipeline will be expanded when more gas is discovered and ready to be shipped, the bill assures that Alaska's gas will serve the nation's energy needs for decades. Therefore, applicants must commit to evaluate the demand for pipeline expansion at least every two years, and to expand when there is sufficient quantities of gas to ensure an economic expansion. The costs of any expansions will then be collected through "rolled-in" rates that pass those expansion costs on to all shippers in the gas pipeline. The AGIA will cap the cost of rolled-in price increases at no more than 15 percent of initial rates, in response to concerns regarding the predictability of tariff rates.

To accomplish the fourth goal, applicants will have to commit to propose and support tariff rates that would produce the lowest reasonable transportation costs in order to produce the highest price at the wellhead. Minimizing transportation costs result in the state maximizing its royalty revenue stream as well as that of the producers.

To accomplish the fifth goal, applicants must provide for a minimum of five off-take points in Alaska. This, in conjunction with the "distance sensitive tariff rates", will allow gas to be withdrawn from the pipeline at reasonable transportation costs in order to serve residential and business needs across the state.

To accomplish the sixth goal, applicants must commit to establishing a gas pipeline project headquarters in Alaska, establishing hiring offices in Alaska, and hiring qualified Alaskans, thus giving Alaskans access to the thousands of new pipeline jobs.

The Honorable Lyda Green
March 2, 2007
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The bill requires the application process to commence no more than three months after the bill passes, when the commissioners of Natural Resources and Revenue issue a request for applications (RFA). Applications will be due under a deadline established by the commissioners; however, our intention is to allow applicants three (3) months to respond to the RFA.

Applicants will be deemed "qualified" by having fulfilled the bill's requirements. Qualified applications will then be evaluated by the commissioners of Natural Resources and Revenue to determine which application best meets the stated goals. Before issuing a written determination, the commissioners will publicly release complete applications and take comments for 60 days. Applicants could apply to keep confidential the proprietary information or trade secrets included in their applications.

The bill sets forth "evaluative criteria" to facilitate the selection process. The evaluative criteria are: the proposed project timeline, the proposed method to manage cost overruns, the proposed tariff rates, the ability of the project design to accommodate expansion, the percentage of the state matching fund that will be used, whether the project is feasible, and the applicant's ability to perform. The commissioners will publish a notice of intent to issue a natural gas pipeline project license with written findings, and forward the notice of intent, with findings and supporting documentation, to the legislature. The legislature will have 30 days to disapprove the commissioners' proposed action.

The bill also provides that the licensee must commit to spend the money necessary to build the pipeline within one year of receiving a certificate from the FERC or the RCA if the project has credit support adequate to finance construction of the project. If necessary, the licensee would have an additional four years to obtain financing, or transfer the certificate and all associated work product to another licensee designated by the state. If the project becomes uneconomic after the license is awarded, the bill provides a process for relinquishing the license that will enable the state to recover the benefit of its investment in the project and issue another license. To encourage the licensee to spend its money working toward Open Season, and certification, and building the gas pipeline project, the state will agree that if it provides financial benefits to another company to encourage the construction of a competing pipeline project after the license is issued, the licensee will be entitled to recover from the state three times the amount it spent on the project.

The bill identifies quantifiable values the state is willing to commit to encourage early and appropriate development of an Alaska Gas Pipeline project. It also identifies the elements necessary to protect the state, and the nation's, long-term interests in

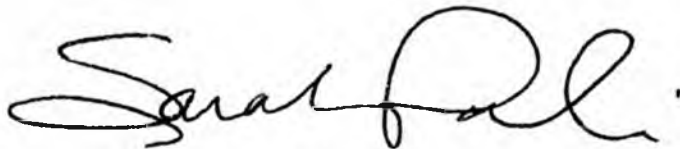
The Honorable Lyda Green

March 2, 2007

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development of additional gas reserves. The bill protects the state from untenable risks and will induce expedited construction of a gas pipeline that powers the state and the nation. I urge your prompt and favorable action on the bill.

Sincerely,

A handwritten signature in black ink, appearing to read "Sarah Palin". The signature is fluid and cursive, with a large initial "S" and a distinct "P".

Sarah Palin
Governor

EXECUTIVE SUMMARY OF AGIA
March 5, 2007

PURPOSE: To encourage expedited development of Alaska's gas resources by offering incentives to companies that produce the state's gas resources and companies that can build a pipeline.

INCENTIVES FOR PIPELINE CONSTRUCTION: The state offers to match up to \$500 million of the costs that the licensee will incur to obtain a certificate from the Federal Energy Regulatory Commission or Regulatory Commission of Alaska. The state will appoint a state pipeline coordinator who will be empowered to coordinate amongst the state regulatory agencies with permitting responsibilities. The state will develop its qualified labor force to support project construction and operations.

INCENTIVES FOR GAS COMMITMENT: The state will adopt regulations to provide predictability in the determination of royalty value and its exercise of its right to take its royalty share in kind as gas or in value as money. The state also offers a production tax exemption for gas committed to the pipeline equal to the difference between the taxpayer's tax obligation defined in the tax law at "open season" (i.e., on the day the first solicitation of gas commitments ends), and any higher obligation that becomes effective for ten years after pipeline start-up.

LICENSE REQUIREMENTS: In order for applications to be evaluated, they must commit to the sixteen requirements in AGIA; including, in particular:

1. a commitment to solicit firm commitments to ship gas on the pipeline within 3 years of getting the license (the open season),
2. a firm date by which the applicant will apply to Federal Energy Regulatory Commission or Regulatory Commission of Alaska for a certificate authorizing the pipeline
3. a commitment to certain financial provisions that will keep tariff rates low
4. a commitment to solicit demand for pipeline expansion at least every two years, to expand when there is sufficient need, and to collect the cost of any expansions through "rolled-in" rates that pass expansion costs onto all shippers so long as rates do not increase more than a fixed amount above initial rates,
5. a description of how cost overrun risks will be managed
6. a commitment to have at least five delivery points in Alaska
7. a commitment to hire qualified Alaskans for construction and operation of the gas pipeline

APPLICATION REVIEW CRITERIA: The Commissioners evaluate the applications under the seven criteria in AGIA:

1. proposed project timeline
2. proposed method to manage cost overruns
3. proposed tariff rate structure
4. the ability of the project design to accommodate expansion
5. how much of the state matching fund will be used and the timing of the state's payments
6. whether the project is feasible
7. the applicant's ability to perform

EXECUTIVE SUMMARY OF AGIA
March 5, 2007

PROJECT PROCESS: The project begins when the Commissioners issue a request for applications no more than three months after AGIA passes. The application deadline will be established by the Commissioners in the notice. The Commissioners will publicly release complete applications and take comments for 60 days. Applicants can apply to protect proprietary information or trade secrets included in their applications. The Commissioners forward a written decision recommending award. The legislature will then have 30 days after that notice to disapprove the Commissioners' proposed action.

After a license is awarded, the licensee must complete an application to the Federal Energy Regulatory Commission or Regulatory Commission of Alaska. The licensee must sanction the project within a year of receiving a certificate from the Federal Energy Regulatory Commission if it has adequate financing. If necessary, the licensee has an additional four years to obtain financing or transfer the certificate, and all associated work product, to another licensee designated by the state.

If the project becomes uneconomic after the license is awarded, AGIA describes a process for relinquishing the license that will enable the state to recover the benefit of its investment in the project by issuing another licensee. To encourage the licensee to commit to spend funds building the pipeline, the state agrees that if it provides financial benefits to another group to encourage the construction of a competing pipeline project after the license is issued, the licensee is entitled to recover three times the amount it spent on the project from the state.