

SB

138

(FILE 1)

<TARGET><BILL>SB 138</BILL><SUBJECT>SB 138 (FILE
1)</SUBJECT><COMM>HRES28</COMM></TARGET>

passed

28-GS2806LA.29
Neuman/Bullock
4/2/14

AMENDMENT

#1

Feigle

OFFERED IN THE HOUSE

TO: CSSB 138(FIN) am

1 Page 1, line 1:

2 Delete "purposes, powers, and duties of the"

3

4 Page 4, following line 11:

5 Insert a new bill section to read:

6 **"* Sec. 3. AS 31.25.020(a) is amended to read:**

7 **(a) The corporation shall be governed by a board of directors consisting of**

8 **(1) five public members; and**

9 **(2) two individuals designated by the governor that are each the head**

10 **of a principal department of the state, except that the commissioner of natural**

11 **resources and the commissioner of revenue may not be designated to serve on the**

12 **board [UNLESS THE PROJECT FOR WHICH A LICENSE IS ISSUED UNDER**

13 **AS 43.90 HAS BEEN ABANDONED OR IS NO LONGER RECEIVING THE**

14 **INDUCEMENTS IN AS 43.90.110(a) OR THE COMMISSIONER OF NATURAL**

15 **RESOURCES AND THE COMMISSIONER OF REVENUE ARE NO LONGER**

16 **SIGNATORIES ON A VALID CONTRACT UNDER AS 43.90]."**

17

18 **Renumber the following bill sections accordingly.**

19

20 **Page 14, line 3:**

21 **Delete "sec. 14"**

22 **Insert "sec. 15"**

23

1 Page 17, line 24:

2 Delete "sec. 17"

3 Insert "sec. 18"

4

5 Page 21, line 16:

6 Delete "sec. 27"

7 Insert "sec. 28"

8

9 Page 25, line 9:

10 Delete "sec. 30"

11 Insert "sec. 31"

12

13 Page 31, line 18:

14 Delete "sec. 37"

15 Insert "sec. 38"

16

17 Page 53, lines 24 - 25:

18 Delete "sec. 23"

19 Insert "sec. 24"

20

21 Page 54, line 25:

22 Delete "sec. 14"

23 Insert "sec. 15"

24

25 Page 56, line 6:

26 Delete "Sections 1 - 14, 16, 17, 23 - 27, 29, 30, 37, 39, and 55 - 61"

27 Insert "Sections 1 - 15, 17, 18, 24 - 28, 30, 31, ~~39~~, 40, and 56 - 62"

28

29 Page 56, line 8:

30 Delete "Section 38"

31 Insert "Section 39"

1

2 Page 56, line 9:

3 Delete "secs. 62 and 63"

4 Insert "secs. 63 and 64"

passed

AMENDMENT

#3

OFFERED IN THE HOUSE

BY REPRESENTATIVE FEIGE

TO: CSSB 138(FIN) am

1 Page 4, following line 11:

2 Insert a new bill section to read:

3 **** Sec. 3.** AS 31.25.020 is amended by adding a new subsection to read:

4 (e) A public member appointed by the governor under (b) of this section shall
5 be a citizen of the United States. Notwithstanding AS 39.05.100, a person appointed
6 under (b) of this section is not required to be or have been a registered voter in the
7 state and is not required to reside in the state."

8

9 Renumber the following bill sections accordingly.

10

11 Page 14, line 3:

12 Delete "sec. 14"

13 Insert "sec. 15"

14

15 Page 17, line 24:

16 Delete "sec. 17"

17 Insert "sec. 18"

18

19 Page 21, line 16:

20 Delete "sec. 27"

21 Insert "sec. 28"

22

23 Page 25, line 9:

- 1 Delete "sec. 30"
- 2 Insert "sec. 31"
- 3
- 4 Page 31, line 18:
- 5 Delete "sec. 37"
- 6 Insert "sec. 38"
- 7
- 8 Page 53, lines 24 - 25:
- 9 Delete "sec. 23"
- 10 Insert "sec. 24"
- 11
- 12 Page 54, line 25:
- 13 Delete "sec. 14"
- 14 Insert "sec. 15"
- 15
- 16 Page 56, line 6:
- 17 Delete "Sections 1 - 14, 16, 17, 23 - 27, 29, 30, 37, 39, and 55 - 61"
- 18 Insert "Sections 1 - 15, 17, 18, 24 - 28, 30, 31, 38, 40, and 56 - 62"
- 19
- 20 Page 56, line 8:
- 21 Delete "Section 38"
- 22 Insert "Section 39"
- 23
- 24 Page 56, line 9:
- 25 Delete "secs. 62 and 63"
- 26 Insert "secs. 63 and 64"

passed

28-GS2806I.A.48
Nauman/Bullock
4/2/14

AMENDMENT

#4

OFFERED IN THE HOUSE
TO: CSSB 138(FIN) am

BY REPRESENTATIVE HAWKER

- 1 Page 9, line 2, following "fund":
- 2 Insert "of the state"

as amended

passed

AMENDMENT

8

OFFERED IN THE HOUSE

BY REPRESENTATIVE FEIGE

TO: CSSB 138(FIN) am

1 Page 4, following line 24:

2 Insert new bill sections to read:

3 **** Sec. 4.** AS 31.25.050 is amended to read:

4 **Sec. 31.25.050. Legal counsel.** Except as provided in (b) of this section, the
5 [THE] corporation shall retain legal counsel to advise the corporation in legal matters
6 and represent it in litigation.

7 *** Sec. 5.** AS 31.25.050 is amended by adding a new subsection to read:

8 (b) The attorney general shall

9 (1) be the legal counsel for the corporation for legal services related to
10 the development of contracts and agreements by the corporation that relate to an
11 Alaska liquefied natural gas project; and

12 (2) consult with the corporation when procuring outside counsel for
13 legal services related to an Alaska liquefied natural gas project."

14
15 Renumber the following bill sections accordingly.

16

17 Page 14, line 3:

18 Delete "sec. 14"

19 Insert "sec. 16"

20

21 Page 17, line 24:

22 Delete "sec. 17"

23 Insert "sec. 19"

insert
for the Corporation

- 1
- 2 **Page 21, line 16:**
- 3 **Delete "sec. 27"**
- 4 **Insert "sec. 29"**
- 5
- 6 **Page 25, line 9:**
- 7 **Delete "sec. 30"**
- 8 **Insert "sec. 32"**
- 9
- 10 **Page 31, line 18:**
- 11 **Delete "sec. 37"**
- 12 **Insert "sec. 39"**
- 13
- 14 **Page 53, lines 24 - 25:**
- 15 **Delete "sec. 23"**
- 16 **Insert "sec. 25"**
- 17
- 18 **Page 54, line 25:**
- 19 **Delete "sec. 14"**
- 20 **Insert "sec. 16"**
- 21
- 22 **Page 56, line 6:**
- 23 **Delete "Sections 1 - 14, 16, 17, 23 - 27, 29, 30, 37, 39, and 55 - 61"**
- 24 **Insert "Sections 1 - 16, 18, 19, 25 - 29, 31, 32, 39, 41, and 57 - 63"**
- 25
- 26 **Page 56, line 8:**
- 27 **Delete "sec. 38"**
- 28 **Insert "sec. 40"**
- 29
- 30 **Page 56, line 9:**
- 31 **Delete "secs. 62 and 63"**

1 Insert "secs. 64 and 65"

passed

28-GS2806 I.A.68
Bullock
4/4/14

AMENDMENT

#9

OFFERED IN THE HOUSE

BY REPRESENTATIVE FEIGE

TO: CSSB 138(FIN) am

1 Page 30, lines 19 - 20:

2 Delete "upstream of the point of production of gas"

3 Insert "and, under AS 43.55.020(e), considered as gas produced from a lease or
4 property for the purpose of AS 43.55.011 - 43.55.180"

5

6 Page 30, line 21:

7 Delete "for"

8 Insert "in"

9

10 Page 30, line 22:

11 Delete "a reservoir"

12 Insert "and, under AS 43.55.020(e), considered as gas produced from a lease or
13 property for the purpose of AS 43.55.011 - 43.55.180"

passed

28-GS2806\I.A.71
Bullock
4/4/14

AMENDMENT

OFFERED IN THE HOUSE

#10

BY REPRESENTATIVE FEIGE

TO: CSSB 138(FIN) am

1 Page 30, lines 12 - 17:

2 Delete all material and insert:

3 "(d) An assessment under AS 43.05.245 against a producer for an
4 underpayment of a tax levied by this section may be made in terms of an amount of
5 gas or an amount of money, as determined under regulations adopted by the
6 department. If the assessment is made in terms of money, the amount for a month of
7 production for an oil and gas lease subject to an effective election under (a) of this
8 section is the product of the number of units of gas by which the producer's delivery to
9 the state was less than the amount required by (b) of this section, multiplied by the
10 gross value at the point of production for each unit of the gas other than gas that was
11 not subject to tax or gas that was delivered to the state under (b) of this section. The
12 department may allow a credit or refund under AS 43.05.275 for an overpayment of a
13 tax levied by this section that may be issued in the form of gas or money, as
14 determined under regulations adopted by the department. If the refund is allowed in
15 terms of money, the amount of the credit or refund for a month of production for an oil
16 and gas lease subject to an effective election under (a) of this section is the product of
17 the number of units of gas by which the producer's delivery to the state was more than
18 the amount required under (b) of this section, multiplied by the gross value at the point
19 of production for each unit of the gas other than gas that was not subject to tax or gas
20 that was delivered to the state under (b) of this section. Interest that is determined as a
21 percentage of the amount of a tax underpayment or overpayment and a penalty that is
22 a percentage of the amount of a tax underpayment are calculated as a percentage of the
23 amount of money determined in this subsection. An amount of gas that was less than

1 the amount required to be delivered to the state under (b) of this section or an amount
2 of gas that was more than the amount required to be delivered to the state under (b) of
3 this section that is adjusted as provided by a gas balancing agreement to which the
4 state is a party under AS 38.05.020(b)(11) is not subject to assessment under
5 AS 43.05.245 or a credit or refund under AS 43.05.275. In this subsection, "unit"
6 means a unit of measurement for gas identified by the department under regulations
7 adopted by the department and may be expressed as 1,000 cubic feet, 1,000,000
8 British thermal units, or another appropriate unit of measurement specified by the
9 department under regulations adopted by the department."

Passed

28-GS2806\I.A.72
Bullock
4/4/14

AMENDMENT

11

OFFERED IN THE HOUSE
TO: CSSB 138(FIN) am

BY REPRESENTATIVE FEIGE

- 1 Page 47, line 23:
- 2 Delete "oil or gas"
- 3 Insert "oil and gas"
- 4
- 5 Page 48, line 1:
- 6 Delete "oil or gas"
- 7 Insert "oil and gas"
- 8
- 9 Page 48, lines 2 - 3:
- 10 Delete "oil or gas"
- 11 Insert "oil and gas"
- 12
- 13 Page 48, lines 8 - 9:
- 14 Delete "oil or gas"
- 15 Insert "oil and gas"
- 16
- 17 Page 48, line 17:
- 18 Delete "oil or gas"
- 19 Insert "oil and gas"
- 20
- 21 Page 48, line 18:
- 22 Delete "oil or gas"
- 23 Insert "oil and gas"

Passed

28-GS2806\I.A.73
Bullock
4/4/14

AMENDMENT

#12

OFFERED IN THE HOUSE

BY REPRESENTATIVE FEIGE

TO: CSSB 138(FIN) am

- 1 Page 52, line 15, following "transporting":
2 Insert "the"
3
4 Page 52, line 19, following "gas":
5 Insert "after completion of mechanical separation"
6
7 Page 52, line 21:
8 Delete "gas"
9 Insert "the gas after mechanical separation"
10
11 Page 52, line 24:
12 Following "the":
13 Insert "gas processing"
14 Following "pipeline":
15 Insert "downstream of the gas processing plant"
16
17 Page 52, line 25, following "svstem":
18 Insert "downstream of the gas processing plant"
19
20 Page 52, line 26, following "transporting":
21 Insert "the"

Passed

AMENDMENT

#13

OFFERED IN THE HOUSE

BY REPRESENTATIVE FEIGE

TO: CSSB 138(FIN) am

1 Page 13, line 28, following "confidential":

2 Insert "and must be made available to the public at least 90 days before the
3 proposed effective date for the terms"

4

5 Page 13, following line 31:

6 Insert a new paragraph to read:

7 "(13) consult with the Alaska Gasline Development Corporation in
8 the development of agreements or contracts under (10) or (11) of this subsection
9 for project services related to a gas treatment plant, pipeline, liquefaction facility,
10 marine terminal, or marine transportation services necessary to transport
11 natural gas to market;"

12

13 Renumber the following paragraph accordingly.

14

15 Page 15, line 22, following "confidential":

16 Insert "and must be made available to the public at least 90 days before the proposed
17 effective date for the terms"

18

19 Page 15, following line 25:

20 Insert a new paragraph to read:

21 "(13) consult with the Alaska Gasline Development Corporation in the
22 development of agreements or contracts under (10) or (11) of this subsection for
23 project services related to a gas treatment plant, pipeline, liquefaction facility, marine

1 terminal, or marine transportation services necessary to transport natural gas to
2 market;"

3

4 Renumber the following paragraphs accordingly.

5

6 Page 30, line 10:

7 Delete "AS 38.05.020(b)(13)"

8 Insert "AS 38.05.023(b)(14)"

Passed -
as amended

28-GS2806 I.A.80
Nauman/Bullock
4/4/14

AMENDMENT

#14

Feige

OFFERED IN THE HOUSE

TO: CSSB 138(FIN) am

1 Page 13, line 30:

2 Delete "the legislature only"

3 Insert "members of the legislature under confidentiality agreements, either"

4

5 Page 13, line 31:

6 Delete "under confidentiality agreements":

7 Insert "with any member of the legislature individually"

8

9 Page 15, line 24:

10 Delete "the legislature only"

11 Insert "members of the legislature under confidentiality agreements, either"

12

13 Page 15, line 25:

14 Delete "under confidentiality agreements":

15 Insert "with any member of the legislature individually"

and their respective
agents + CONTRACTORS
on request

Conform language
to the remainder
of the amendment

Passed
as amended

AMENDMENT

#15

OFFERED IN THE HOUSE

BY REPRESENTATIVE FEIGE

TO: CSSB 138(FIN) am

match
A0269 Duties &
Respon.
Language
EXACTLY

1 Page 53, line 18, following "BOARD.":

2 Insert "(a)"

3

4 Page 53, line 20, following "project.":

5 Insert "The board shall review available information, hold public meetings, and
6 provide to the governor by December 15 of each year annual reports that

7 (1) review the potential effects and benefits of new infrastructure for North
8 Slope natural gas development, whether designed to provide natural gas for in-state sale or for
9 export, or both, on communities in the state, including consideration of tax structure under
10 AS 29.45 and AS 43.56, and consideration of other payments before construction of new
11 infrastructure associated with North Slope natural gas development;

12 (2) provide recommendations for changes to the oil and gas exploration,
13 production, and pipeline transportation property taxes under AS 43.56 related to infrastructure
14 for commercialization of natural gas that would facilitate development of a major natural gas
15 project and mitigate financial effects on communities from development of a North Slope
16 natural gas project;

17 (3) provide recommendations for changes to AS 29.45.080 related to the
18 commercialization of natural gas that would facilitate development of a North Slope natural
19 gas project and mitigate financial effects on communities from a North Slope natural gas
20 project;

21 (4) provide recommendations for legislative or other options to minimize the
22 financial effects on communities in proximity to North Slope natural gas project infrastructure
23 during construction of a natural gas pipeline and associated infrastructure; and

- 1 (5) provide recommendations on the effects on and benefits to communities
- 2 not in proximity to a North Slope natural gas project.
- 3 (b)"

A O

the Denali Borough, the Matanuska-Susitna Borough, the Municipality of Anchorage, and the Kenai Peninsula Borough;

5. One member of an organization representing the interest of municipalities in the state, regardless of where that person resides in the state; and
6. Two members of the public in the state who do not reside in the North Slope Borough, the Fairbanks North Star Borough, the Denali Borough, the Matanuska-Susitna Borough, the Municipality of Anchorage, or the Kenai Peninsula Borough.

The Commissioner of the Department of Revenue or the Commissioner's designee serves as the chair of the Municipal Advisory Gas Project Review Board.

DUTIES AND RESPONSIBILITIES

The Municipal Advisory Gas Project Review Board shall review available information, hold public meetings and, provide annual reports by December 15 of each year to the Governor that include:

1. The potential impact and benefits of new infrastructure for North Slope natural gas development, whether designed to provide natural gas for in-state sale or for export, or both, on communities in the state, including consideration of tax structure under AS 29.45 and AS 43.56, and consideration of other payments before construction of new infrastructure associated with North Slope natural gas development;
2. Recommendations for changes to the oil and gas exploration, production, and pipeline transportation property taxes under AS 43.56 related to infrastructure for commercialization of natural gas that would facilitate development of a major natural gas project and mitigate financial impacts to communities affected by development of a North Slope natural gas project;
3. Recommendations for changes to AS 29.45.080 related to the commercialization of natural gas that would facilitate development of a North Slope natural gas project and mitigate financial impacts to communities affected by a North Slope natural gas project;
4. Recommendations for legislative or other options to minimize the financial impact to communities in proximity to North Slope natural gas project infrastructure during construction of a natural gas pipeline and associated infrastructure; and
5. Recommendations on the impact and benefits to communities not in proximity to a North Slope natural gas project.

ADMINISTRATIVE SUPPORT

Consistent with law and available appropriations, the Department of Revenue shall provide administrative support for the Municipal Advisory Gas Project Review Board using existing personnel and monetary resources. The Department of Revenue and other State agencies are not

Passed

28-GS2806 I.A.86
Nauman/Bullock
4/4/14

AMENDMENT

#10

OFFERED IN THE HOUSE

BY REPRESENTATIVE FEIGE

TO: CSSB 138(FIN) am

- 1 Page 4, line 21:
- 2 Delete "shall"
- 3 Insert "may"
- 4
- 5 Page 4, line 22, following "The":
- 6 Insert "board may appoint a separate program director for an in-state natural gas
- 7 pipeline as described in the July 1, 2011, project plan prepared under former AS 38.34.040
- 8 and defined in AS 31.25.390. A"
- 9
- 10 Page 4, line 24:
- 11 Delete "the board and"

Passed
as
amended

28-GS2806 I.A.83
Nauman/Bullock
4/4/14

AMENDMENT

#17

OFFERED IN THE HOUSE

BY REPRESENTATIVE SADDLER

TO: CSSB 138(FIN) am

1 Page 55, following line 30:

2 Insert a new bill section to read:

3 **** Sec. 61.** The uncodified law of the State of Alaska is amended by adding a new section to
4 read:

5 LEGISLATIVE BRIEFINGS. Before the first flow of gas in a North Slope natural gas
6 project developed under the authority of this Act, the parties to the project shall, at least once
7 each calendar quarter, provide briefings to interested legislators, legislative staff, and
8 legislative consultants on the progress of a North Slope natural gas project developed under
9 the authority of this Act. A briefing under this section must be accompanied by a written
10 report provided by the Department of Natural Resources of the amount of money the state
11 may be obligated to pay a third party under an agreement or contract under
12 AS 38.05.020(b)(10) or (11) if a North Slope natural gas project is terminated before the first
13 flow of gas in the project."

14

15 Renumber the following bill sections accordingly.

16

17 Page 56, line 6:

18 Delete "61"

19 Insert "62"

20

21 Page 56, line 9:

22 Delete "secs. 62 and 63"

23 Insert "secs. 63 and 64"

insert —
"every 4 months"

passed

AMENDMENT

#27

OFFERED IN THE HOUSE

BY REPRESENTATIVE FEIGE

TO: CSSB 138(FIN) am

1 Page 2, line 5, following "credit;":

2 Insert "requiring the commissioner of revenue to provide a report to the
3 legislature on financing options for state ownership and participation in a North Slope
4 natural gas project;"

5

6 Page 54, line 23:

7 Delete ". (a)"

8 Insert "; IDENTIFICATION OF AND REPORT ON FINANCING OPTIONS FOR
9 STATE OWNERSHIP AND PARTICIPATION IN A NORTH SLOPE NATURAL GAS
10 PROJECT. (a) The commissioner of revenue shall identify and report to the legislature on a
11 range of financing options for state acquisition of an ownership interest and participation in a
12 North Slope natural gas project. The report must include a description of the risk associated
13 with each option and the effect of each option on the bonding capacity and bond rating of the
14 state. In this subsection, "North Slope natural gas project" has the meaning given in
15 AS 38.05.965, as amended by sec. 23 of this Act.

16 (b) The commissioner shall make an interim draft of the report described in (a) of this
17 section available to the legislature on the first day of the First Regular Session of the Twenty-
18 Ninth Alaska State Legislature, and a final report at the time the commissioner of natural
19 resources submits the first agreement or contract to the legislature for approval under
20 AS 38.05.020(b)(11), enacted by sec. 14 of this Act."

21

22 Reletter the following subsections accordingly.

23

1 Page 54, line 28:

2 Delete "of"

3 Insert "and analysis by"

4

5 Page 55, line 21:

6 Delete "and"

7

8 Page 55, line 23, following "interest":

9 Insert ";

10 (8) whether the ownership interest held by a municipality, regional
11 corporation, or resident would be subject to project assessments;

12 (9) how cash calls for the project and the expansion of the project would be
13 managed;

14 (10) the income tax consequences to the holder of an ownership interest,
15 including the timing and recognition of income related to the ownership interest, including
16 differentiating income related to the ownership interest from the receipt of dividends or other
17 distributions;

18 (11) the risk that the receipt of a benefit from the project by a person other
19 than the state would make income received from the project by the state subject to federal
20 income tax; and

21 (12) constitutional issues that may be implicated by restricting ownership
22 interests under the plan to residents and municipalities in the state"

23

24 Page 55, following line 24:

25 Insert a new paragraph to read:

26 "(1) "municipality" has the meaning given in AS 01.10.060;"

27

28 Renumber the following paragraphs accordingly.

passed

AMENDMENT

#28

OFFERED IN THE HOUSE

BY REPRESENTATIVE FEIGE

TO: CSSB 138(FIN) am

1 Page 2, line 14, following "project;":

2 Insert "relating to the duties of the Oil and Gas Competitiveness Review Board;"

3

4 Page 53, following line 13:

5 Insert a new bill section to read:

6 **** Sec. 57.** AS 43.98.050 is amended to read:

7 **Sec. 43.98.050. Duties.** The duties of the board include the following:

8 (1) establish and maintain a salient collection of information related to
9 oil and gas exploration, development, and production in the state and related to tax
10 structures, rates, and credits in other regions with oil and gas resources;

11 (2) review historical, current, and potential levels of investment in the
12 state's oil and gas sector;

13 (3) identify factors that affect investment in oil and gas exploration,
14 development, and production in the state, including tax structure, rates, and credits;
15 royalty requirements; infrastructure; workforce availability; and regulatory
16 requirements;

17 (4) review the competitive position of the state to attract and maintain
18 investment in the oil and gas sector in the state as compared to the competitive
19 position of other regions with oil and gas resources;

20 (5) in order to facilitate the work of the board, establish procedures to
21 accept and keep confidential information that is beneficial to the work of the board,
22 including the creation of a secure data room and confidentiality agreements to be
23 signed by individuals having access to confidential information;

1 (6) make written findings and recommendations to the Alaska State
2 Legislature before

3 (A) January 31, 2015, or as soon thereafter as practicable,
4 regarding

5 (i) changes to the state's regulatory environment and
6 permitting structure that would be conducive to encouraging increased
7 investment while protecting the interests of the people of the state and
8 the environment;

9 (ii) the status of the oil and gas industry labor pool in
10 the state and the effectiveness of workforce development efforts by the
11 state;

12 (iii) the status of the oil-and-gas-related infrastructure of
13 the state, including a description of infrastructure deficiencies; and

14 (iv) the competitiveness of the state's fiscal oil and gas
15 tax regime when compared to other regions of the world;

16 (B) January 15, 2017, regarding

17 (i) the state's tax structure and rates on oil and gas
18 produced south of 68 degrees North latitude;

19 (ii) a tax structure that takes into account the unique
20 economic circumstances for each oil and gas producing area south
21 of 68 degrees North latitude;

22 (iii) a reduction in the gross value at the point of
23 production for oil and gas produced south of 68 degrees North
24 latitude that is similar to the reduction in gross value at the point of
25 production in AS 43.55.160(f) and (g);

26 (iv) other incentives for oil and gas production south
27 of 68 degrees North latitude;

28 (C) January 31, 2021, or as soon thereafter as practicable,
29 regarding

30 (i) changes to the state's fiscal regime that would be
31 conducive to increased and ongoing long-term investment in and

1 development of the state's oil and gas resources;
2 (ii) alternative means for increasing the state's ability to
3 attract and maintain investment in and development of the state's oil
4 and gas resources; and
5 (iii) a review of the current effectiveness and future
6 value of any provisions of the state's oil and gas tax laws that are
7 expiring in the next five years."
8

9 **Renumber the following bill sections accordingly.**

10

11 **Page 56, line 6:**

12 Delete "61"

13 Insert "62"

14

15 **Page 56, line 9:**

16 Delete "secs. 62 and 63"

17 Insert "secs. 63 and 64"

Passed

AMENDMENT

#29

OFFERED IN THE HOUSE

BY REPRESENTATIVE TARR

TO: CSSB 138(FIN) am

1 Page 18, following line 17:

2 Insert a new bill section to read:

3 **** Sec. 19. AS 38.05.182(a) is amended to read:**

4 (a) Any royalty provided for in AS 38.05.135 - 38.05.181 may be taken in
5 kind rather than in money if the commissioner determines that the taking in kind
6 would be in the best interest of the state. However, royalties on oil and gas shall be
7 taken in kind unless the commissioner determines that the taking in money would be
8 in the best interest of the state. It is not in the best interest of the state to take
9 royalty on gas in money from a lessee transporting gas in the North Slope natural
10 gas project if the lessee has committed to dispose of or market the state's royalty
11 gas taken in kind on the same terms and conditions as the lessee markets or
12 disposes of the lessee's gas."

13
14 Renumber the following bill sections accordingly.

15
16 Page 21, line 16:

17 Delete "sec. 27"

18 Insert "sec. 28"

19

20 Page 25, line 9:

21 Delete "sec. 30"

22 Insert "sec. 31"

23

- 1 Page 31, line 18:
- 2 Delete "sec. 37"
- 3 Insert "sec. 38"
- 4
- 5 Page 53, lines 24 - 25:
- 6 Delete "sec. 23"
- 7 Insert "sec. 24"
- 8
- 9 Page 56, line 6:
- 10 Delete "23 - 27, 29, 30, 37, 39, and 55 - 61"
- 11 Insert "24 - 28, 30, 31, 38, 40, and 56 - 62"
- 12
- 13 Page 56, line 8:
- 14 Delete "Section 38"
- 15 Insert "Section 39"
- 16
- 17 Page 56, line 9:
- 18 Delete "secs. 62 and 63"
- 19 Insert "secs. 63 and 64"

passed

AMENDMENT

OFFERED IN THE HOUSE

#30

BY REPRESENTATIVE HAWKER

TO: CSSB 138(FIN) am

1 Page 26, following line 24:

2 Insert a new bill section to read:

3 **** Sec. 33.** AS 43.20.144(d) is amended to read:

4 (d) The sales factor of a taxpayer subject to this section is a fraction,

5 (1) the numerator of which is the sum of the following for the tax
6 period:

7 (A) the tariffs allowed and received by or for the taxpayer for
8 transporting oil or gas by pipeline in this state, regardless of whether the tariffs
9 are paid by third parties or by entities within the taxpayer's consolidated
10 business; and

11 (B) the total sales of the taxpayer in this state, determined in
12 accordance with AS 43.19 (Multistate Tax Compact), but excluding

13 (i) those sales already included in the tariffs described
14 in (A) of this paragraph;

15 (ii) constructive sales or deemed sales of natural gas
16 delivered to the state as payment of tax under an election made by
17 the taxpayer under AS 43.55.014;

18 (iii) fees, allowed and received, that are paid
19 between entities within the consolidated business of the taxpayer
20 for transporting the taxpayer's natural gas; and

21 (2) the denominator of which is the sum of the following for the tax
22 period:

23 (A) the tariffs allowed and received by or for the taxpayer's

1 consolidated business for transporting oil or gas by pipeline everywhere,
2 regardless of whether the tariffs are paid by third parties or by entities within
3 the taxpayer's consolidated business; and

4 (B) the total sales of the taxpayer's consolidated business
5 everywhere, determined in accordance with AS 43.19 (Multistate Tax
6 Compact), but excluding

7 (i) those sales already included in the tariffs described
8 in (A) of this paragraph;

9 (ii) constructive sales or deemed sales of natural gas
10 delivered to the state as payment of tax under an election made by
11 the taxpayer under AS 43.55.014 or delivered in another tax
12 jurisdiction under a law comparable to AS 43.55.014;

13 (iii) fees, allowed and received, that are paid
14 between entities within the consolidated business of the taxpayer
15 for transporting the taxpayer's natural gas."

16
17 Renumber the following bill sections accordingly.

18
19 Page 31, line 18:

20 Delete "sec. 37"

21 Insert "sec. 38"

22
23 Page 56, line 6:

24 Delete "37, 39, and 55 - 61"

25 Insert "38, 40, and 56 - 62"

26
27 Page 56, line 8:

28 Delete "Section 38"

29 Insert "Section 39"

30
31 Page 56, line 9:

- 1 Delete "secs. 62 and 63"
- 2 Insert "secs. 63 and 64"

passed

AMENDMENT

34

OFFERED IN THE HOUSE BY REPRESENTATIVE HAWKER
TO: CSSB 138(FIN) am

- 1 Page 1, line 4, following "projects;":
- 2 Insert "making certain contracts by the Department of Natural Resources and the
- 3 Department of Law not subject to the State Procurement Code;"
- 4
- 5 Page 11, following line 19:
- 6 Insert a new bill section to read:
- 7 "* Sec. 13. AS 36.30.850(b) is amended by adding new paragraphs to read:
- 8 (47) contracts for professional and technical services by the
- 9 Department of Natural Resources to support the development of agreements and
- 10 contracts under AS 38.05.020(b)(10) and (11);
- 11 (48) contracts of the Department of Law developed with client
- 12 participation for legal services related to an Alaska liquefied natural gas project as that
- 13 project is defined in AS 31.25.390. except that, to the extent practicable, the
- 14 Department of Law shall use the procurement process under AS 36.30.320 with the
- 15 participation of the client."
- 16
- 17 Renumber the following bill sections accordingly.
- 18
- 19 Page 14, line 3:
- 20 Delete "sec. 14"
- 21 Insert "sec. 15"
- 22
- 23 Page 17, line 24:

- 1 Delete "sec. 17"
- 2 Insert "sec. 18"
- 3
- 4 Page 21, line 16:
- 5 Delete "sec. 27"
- 6 Insert "sec. 28"
- 7
- 8 Page 25, line 9:
- 9 Delete "sec. 30"
- 10 Insert "sec. 31"
- 11
- 12 Page 31, line 18:
- 13 Delete "sec. 37"
- 14 Insert "sec. 38"
- 15
- 16 Page 53, lines 24 - 25:
- 17 Delete "sec. 23"
- 18 Insert "sec. 24"
- 19
- 20 Page 54, line 25:
- 21 Delete "sec. 14"
- 22 Insert "sec. 15"
- 23
- 24 Page 56, line 6:
- 25 Delete "Sections 1 - 14, 16, 17, 23 - 27, 29, 30, 37, 39, and 55 - 61"
- 26 Insert "Sections 1 - 15, 17, 18, 24 - 28, 30, 31, 38, 40, and 56 - 62"
- 27
- 28 Page 56, line 8:
- 29 Delete "Section 38"
- 30 Insert "Section 39"
- 31

- 1 Page 56, line 9:
- 2 Delete "secs. 62 and 63"
- 3 Insert "secs. 63 and 64"

passed

28-GS2806\A.21
Bullock
4/1/14

AMENDMENT

#38

OFFERED IN THE HOUSE
TO: CSSB 138(FIN) am

BY REPRESENTATIVE PEGGY WILSON

- 1 Page 11, line 28:
- 2 Delete "10"
- 3 Insert "20"

Passed
as amended

28-GS2806V.A.99
Bullock
4/6/14

AMENDMENT

#40

OFFERED IN THE HOUSE

BY REPRESENTATIVE SEATON

TO: CSSB 138(FIN) am

1 Page 15, following line 30:

2 Insert a new bill section to read:

3 **** Sec. 16. AS 38.05 is amended by adding a new section to read:**

4 **Sec. 38.05.023. State access to data developed under contract. An**
5 **agreement or contract in which the state or an agent of the state is a party that is**
6 **negotiated under AS 38.05.020(b)(11) must include a requirement that, if the**
7 **commissioner determines that the North Slope natural gas project is not making**
8 **adequate progress toward a final investment decision, the state shall have access to**
9 **data developed under the agreement or contract in which the state has participated**
10 **financially. Access by the state to the data may not be on terms that are more**
11 **restrictive than the terms that are applicable for access by any other party in the North**
12 **Slope natural gas project."**

13

14 Renumber the following bill sections accordingly.

15

16 Page 17, line 24:

17 Delete "sec. 17"

18 Insert "sec. 18"

19

20 Page 21, line 16:

21 Delete "sec. 27"

22 Insert "sec. 28"

23

insert
"directly"

- 1 Page 25, line 9:
- 2 Delete "sec. 30"
- 3 Insert "sec. 31"
- 4
- 5 Page 31, line 18:
- 6 Delete "sec. 37"
- 7 Insert "sec. 38"
- 8
- 9 Page 53, lines 24 - 25:
- 10 Delete "sec. 23"
- 11 Insert "sec. 24"
- 12
- 13 Page 56, line 6:
- 14 Delete "16, 17, 23 - 27, 29, 30, 37, 39, and 55 - 61"
- 15 Insert "16 - 18, 24 - 28, 30, 31, 38, 40, and 56 - 62"
- 16
- 17 Page 56, line 8:
- 18 Delete "Section 38"
- 19 Insert "Section 39"
- 20
- 21 Page 56, line 9:
- 22 Delete "secs. 62 and 63"
- 23 Insert "secs. 63 and 64"

passed

AMENDMENT

#41

OFFERED IN THE HOUSE BY REPRESENTATIVE SEATON
TO: CSSB 138(FIN) am

- 1 Page 15, following line 30:
- 2 Insert a new bill section to read:
- 3 **** Sec. 16.** AS 38.05 is amended by adding a new section to read:
- 4 **Sec. 38.05.023. Limitation on the application of a payment in lieu of**
- 5 **property tax.** A proposed agreement or contract associated with a North Slope natural
- 6 gas project may not include a provision that changes a payment in lieu of property tax
- 7 on property that was previously taxable under AS 43.56."
- 8
- 9 Renumber the following bill sections accordingly.
- 10
- 11 Page 17, line 24:
- 12 Delete "sec. 17"
- 13 Insert "sec. 18"
- 14
- 15 Page 21, line 16:
- 16 Delete "sec. 27"
- 17 Insert "sec. 28"
- 18
- 19 Page 25, line 9:
- 20 Delete "sec. 30"
- 21 Insert "sec. 31"
- 22
- 23 Page 31, line 18:

- 1 Delete "sec. 37"
- 2 Insert "sec. 38"
- 3
- 4 Page 53, lines 24 - 25:
- 5 Delete "sec. 23"
- 6 Insert "sec. 24"
- 7
- 8 Page 56, line 6:
- 9 Delete "16, 17, 23 - 27, 29, 30, 37, 39, and 55 - 61"
- 10 Insert "16 - 18, 24 - 28, 30, 31, 38, 40, and 56 - 62"
- 11
- 12 Page 56, line 8:
- 13 Delete "Section 38"
- 14 Insert "Section 39"
- 15
- 16 Page 56, line 9:
- 17 Delete "secs. 62 and 63"
- 18 Insert "secs. 63 and 64"

*Passed
as amended*

28-GS2806 I.A. 100
Bullock
4/7/14

Rep. Tarr

AMENDMENT

#43

OFFERED IN THE HOUSE

TO: CSSB 138(FIN) am

1 Page 1, line 7, following "on gas;":

2 Insert "relating to a report and recommendations by the commissioner of natural
3 resources regarding the delivery and availability of North Slope natural gas in the state,
4 including the identification of risks and recommendations for mitigation;"

5

6 Page 53, following line 14:

7 Insert a new bill section to read:

8 **** Sec. 58. The uncodified law of the State of Alaska is amended by adding a new section to**
9 **read:**

10 **REPORT AND RECOMMENDATIONS BY THE COMMISSIONER OF**
11 **NATURAL RESOURCES ON THE DELIVERY AND AVAILABILITY OF NORTH**
12 **SLOPE NATURAL GAS IN THE STATE; IDENTIFICATION OF RISKS AND**
13 **RECOMMENDATIONS FOR MITIGATION. (a) The commissioner of natural resources**
14 **shall prepare and make available to the legislature a report on a plan and alternatives to make**
15 **North Slope natural gas available for delivery and use in the state. The report must address**

16 (1) the means by which North Slope natural gas may be delivered for use in
17 the state;

18 (2) the anticipated benefits, risks, and liabilities associated with the sale by the
19 state to utilities and other customers in the state of natural gas received by the state as royalty
20 in kind or as payment of tax;

21 (3) the effect and consequences, including the fiscal effect and liability to third
22 parties, of the state's transport of a reduced amount of natural gas south of an in-state delivery
23 point or underutilizing capacity in a liquefied natural gas plant; and

*insert
in
consultation
with
The
AGDC*

*insert
to the
state*

1 (4) other issues the commissioner of natural resources determines are relevant
2 to the delivery and use of North Slope natural gas in the state and should be considered by the
3 legislature.

4 (b) In conjunction with the report in (a) of this section, the commissioner of natural
5 resources shall recommend the means for eliminating or minimizing the risks and liabilities
6 identified in the report. The recommendations for minimizing risk and liabilities while still
7 allowing the state to meet the natural gas requirements of residents of the state may include
8 authorizing the commissioner of natural resources to

Delete

9 (1) negotiate agreements with other shippers to provide natural gas to the state
10 in proportion to the shipper's share of the capacity in a North Slope natural gas project for the
11 purposes of maintaining balance in the system downstream of a delivery point;

12 (2) acquire additional incremental transportation capacity on an as-needed
13 basis to meet demand for natural gas in the state; or

14 (3) make unused transportation capacity held by the state available to other
15 shippers subject to terms that do not reduce the state's receipt of revenue below the amount
16 the state would receive if the state's gas were not sold in the state.

17 (c) The commissioner of natural resources shall make the report and
18 recommendations required by this section available to the legislature on or before the date a
19 firm transportation services agreement in a North Slope natural gas project to which the state
20 is a party is submitted to the legislature for approval.

21 (d) In this section, "North Slope natural gas project" has the meaning given in
22 AS 38.05.965, as amended by sec. 23 of this Act."

23

24 Renumber the following bill sections accordingly.

25

26 Page 56, line 6:

27 Delete "61"

28 Insert "62"

29

30 Page 56, line 9:

31 Delete "secs. 62 and 63"

1

Insert "secs. 63 and 64"



**HCS CSSB 138 (RES): Commercial Production of North Slope Gas
SECTIONAL ANALYSIS: 28-GS2806H**

April 11, 2014

Bill sections related to the Alaska Gasline Development Corporation (AS 31.25)

Section 1 amends AS 31.25.005, related to the purpose of the Alaska Gasline Development Corporation (AGDC), to add new subsections (1) - (2) to direct the AGDC to develop and have primary responsibility for developing natural gas pipelines, an Alaska liquefied natural gas project (AK LNG), and other transportation mechanisms to deliver gas in-state for the maximum benefit of the people of the state, and to provide economic benefits and revenue to the state.

New subsection (3) expands the AGDC's purpose to include assisting the commissioners of natural resources and revenue to maximize the value of natural gas royalty and tax values.

New subsection (5) expands the AGDC's purpose to include advancement of an AK LNG project, including infrastructure related to liquefaction and commercial support; fees for services for commercial support provided to the state may not be greater than the cost of the service to the AGDC.

Section 2 conforms AS 31.25.010, the structure of the AGDC related to dissolution, to include reference to the purpose section, AS 31.25.005 (amended in section 1).

Section 3 amends AS 31.25.020(a), the composition of the AGDC board of directors, to remove a provision which would have allowed the governor to appoint the commissioner of natural resources and the commissioner of revenue to the AGDC board after a project under AS 43.90 (the Alaska Gasline Inducement Act) has been abandoned or the commissioners are no longer signatories on a valid contract under AS 43.90. With this amendment, the commissioner of natural resources and the commissioner of revenue may not be appointed to the AGDC board.

Section 4 amends AS 31.25.020 to add a new section related to appointment of the AGDC board members. A person appointed must be a citizen of the United States, but notwithstanding AS 39.05.100, are not required to be or have been a registered voter, and is not required to reside in the state.

Section 5 amends AS 31.25.040 to add new subsections to direct the AGDC board, to the maximum extent practicable, to maximize efficient use of state resources, and establish separation with respect to the missions and information for the in-state natural gas pipeline and the AK LNG project. The AGDC board may appoint separate program directors for the AK LNG project and the in-state natural gas pipeline. A program director reports to the executive director of the corporation.

Sections 6 and 7 amend AS 31.25.050 to add conforming language and a new subsection that requires the attorney general to be legal counsel for the AGDC for legal services related to development of contracts and agreements by the AGDC that relate to an AK LNG project. The attorney general is to consult with the AGDC when procuring outside counsel for legal services for the AGDC related to an AK LNG project. The AGDC retains the authority to obtain legal counsel to advise the corporation in legal matters and represent it in litigation.

Section 8 amends AS 31.25.080(a), the powers and duties of the AGDC, to add references to the AK LNG project where needed.

New paragraph (23) adds, for the AK LNG project only, authority to acquire an ownership interest in the AK LNG project components (pipeline facilities, treatment and liquefaction) or in an entity or joint venture with an ownership or other interest in an AK LNG project. This power is limited to the entity of the AGDC pursuing the AK LNG project.

New paragraph (24) allows the AGDC, after consultation with the commissioners of revenue and natural resources, to enter contracts for services related to an AK LNG project.

Section 9 is a conforming amendment to AS 31.25.080(e) to explicitly reference the in-state natural gas pipeline open season currently in the AGDC statutes.

Section 10 adds a new subsection to AS 31.25.080 to direct that an entity or subsidiary of the corporation pursuing the in-state natural gas pipeline may not pursue an AK LNG project (AS 31.25.080(23)).

Section 11 amends AS 31.25.090 by adding a new subsection, regarding confidential information held by the AGDC, to expressly direct that the commissioners of revenue and natural resources shall have access to contract information related to the AK LNG project.

Section 12 amends AS 31.25.100 to direct that money appropriated to the in-state natural gas pipeline fund may be used for the in-state natural gas pipeline and for purposes related to transportation mechanisms in the state, including delivery of propane.

Section 13 establishes AS 31.25.110, the Alaska liquefied natural gas project fund in the AGDC. If money is appropriated to advance an AK LNG project, the corporation shall create an account in the fund for that purpose. The money may be used without further appropriation for purposes related to an AK LNG project and for the purpose of transferring revenues related to equity interests, contracts and other activities to the appropriate fund of the state as determined by the commissioner of revenue.

Section 14 related to subsidiaries created under AS 31.25.120, removes a reference to acquiring the state's royalty share of natural gas yet leaves the broad authority to acquire gas from the North Slope. The AGDC may transfer assets between any subsidiaries it creates under this subsection, except that money for the in-state natural gas pipeline and the AK LNG project may not be transferred. A reference, which may have been read to limit subsidiary formation to not for profit subsidiaries, is removed.

Section 15 makes a conforming amendment in AS 31.25.140(c) on budgetary reporting to the legislature to reference the AK LNG project fund, AS 31.25.110.

Section 16 amends AS 31.25.390 to add a definition of the Alaska liquefied natural gas project and includes an explanation of gas pipeline, gas treatment plant, liquefied natural gas plant, marine terminal, Point Thomson and Prudhoe Bay unit gas transmission lines.

Bill sections related to the Alaska Procurement Code (AS 36.30)

Section 17 adds two new paragraphs (47) and (48) to AS 36.30.850(b), related to exceptions to the application of the state procurement code. Paragraph (47) exempts contracts for professional and technical services by the Department of Natural Resources (DNR) to support the development of agreements and contracts under AS 38.05.020(b)(10) and (11). Paragraph (48) exempts contracts of the Department of Law (LAW), with client participation, for legal services related to an AK LNG project, except that to the extent practicable the LAW shall use the procurement process for small procurements (AS 36.30.320) with participation of the client.

Bill sections related to an Alaska affordable energy fund (AS 37.05)

Section 18 adds AS 37.05.610, an Alaska affordable energy fund as a special non-dedicated account in the general fund to develop infrastructure to deliver energy to areas in the state not expected to have direct access to a North Slope natural gas pipeline. The fund will receive 20 percent of the money received from the state's royalty gas transported in an AK LNG project (net of royalty payments to the Alaska permanent fund).

Bill sections related to the Alaska Land Act (AS 38.05)

Section 19 amends the authority of the DNR commissioner by adding new paragraphs (10) – (12) to AS 38.05.020(b). The DNR commissioner may enter into commercial agreements of not more than two years duration for project services related to the North Slope natural gas project. In addition, in consultation with the commissioner of revenue, the DNR commissioner may participate in negotiations associated with a North Slope natural gas project, including agreements that include balancing, marketing, disposition of natural gas, and offtake contracts associated with a North Slope natural gas project.

A contract or agreement negotiated in which the state is a party would not be effective against the state without legislative authorization for the governor to execute the contract. Paragraph (12) permits the DNR commissioner to enter into confidentiality agreements related to contract negotiations and implementation. Confidential information obtained under paragraph (12) may be shared with members of the legislature, including their respective agents and contractors on request, under confidentiality agreements either in committees held in executive session or with any member of the legislature individually. The terms of a proposed final contract, subject to approval by the legislature, would not be confidential and must be made available to the public at least 90 days before the proposed effective date for the terms.

Paragraph (13) directs that the DNR commissioner consult with the AGDC in the development of agreements or contracts for project services related to a gas treatment plant, pipeline, liquefaction facility, marine terminal or transportation services.

Section 20 adds new paragraph (14) to AS 38.05.020(b) to allow the DNR commissioner, in consultation with the commissioner of revenue, to take custody of gas delivered to the state, to manage project services and the disposition of gas delivered to the state under AS 43.55.014(b)(tax as gas).

Section 21 adds AS 38.05.023, related to terms in an agreement or contract related to a North Slope natural gas project. Subsection (a) details a requirement, to be included in a contract under

AS 38.05.020(b)(11) in which the state is a party, regarding the conditions for state access to data in the event that the commissioner of natural resources determines that a North Slope natural gas project is not making adequate progress towards a final investment decision. Subsection (b) provides that a proposed agreement or contract associated with a North Slope natural gas project may not include a provision that changes a payment in lieu of property tax on property that was previously taxable under AS 43.56.

Section 22 clarifies AS 38.05.180(i) with a conforming amendment that the exploration incentive credit may be applied against the oil and gas production tax levied under AS 43.55.011.

Sections 23 and 24 add new subsections (hh) and (ii) to the Alaska Land Act, AS 38.05.180, which deals with oil and gas leasing, to permit the DNR commissioner to propose modifications to existing leases that: (1) relate to switching between taking royalty gas in kind or in value to ensure that the lessee, state or other person bear proportionate costs for transportation, and to assure the state's actions do not unreasonably interfere with the long-term marketing; (2) provide a method to establish a fair market value for each component of the state's royalty gas; and (3) modify royalty provisions, including net profit provisions, modifications may not result in less than the value the state would have received before a modification.

The DNR commissioner must make written determinations relating to the best interests of the state, including whether the modifications will improve the likelihood of a successful North Slope natural gas project for which sufficient commitment has been shown. Section 24 adds an explicit reference to gas delivered to the state as payment for production tax.

Section 25 amends AS 38.05.182(a), related to royalties on natural resources, to state that it is not in the best interest of the state to take royalty in value from a lessee transporting gas in a North Slope natural gas project if the lessee has committed to dispose of or market the state's royalty gas taken in kind on the same terms and conditions as the lessee disposes of or markets the lessee's gas.

Sections 26 through 29 amend AS 38.05.183, related to sales of royalty oil or gas, by adding references to gas delivered to the state under AS 43.55.014(b), the levy of production tax on gas to be paid in gas for certain North Slope leases.

Section 30 adds definitions to AS 38.05.965 for "initial project term," "North Slope natural gas project;" and "project services."

Bill sections relating to the in-state gasoline project coordinator (AS 38.34)

Sections 31 through 33 amend AS 38.34 related to review by state agencies or entities to expedite review or action of a project under AS 31.25 (AGDC) and to direct that state agencies may not include project provisions that the in-state gasoline project coordinator determines would prevent or significantly impair a project under AS 31.25 (AGDC).

Bill sections relating to tax records and general revenue administration (AS 40.25 and 43.05)

Sections 34 and 35 amend AS 40.25.100(a) related to the confidentiality of tax information to clearly establish as confidential information related to contract negotiations for a North Slope natural gas project. Section 35 references new subsection (k) in AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the gas production tax from modified North Slope leases in gas and the amount of gas subject to that election.

Section 36 amends AS 40.25.120(a) to establish an exception in public records for information confidential under the new provisions of AS 38.05.020(b) (related to contract negotiations for a North Slope natural gas project).

Sections 37 and 38 expand the authority of the commissioner of the Department of Revenue (DOR) by adding new paragraphs (16) and (17) in AS 43.05.010. Effective immediately, paragraph (16) provides that the DOR commissioner may consult with the DNR commissioner on negotiations associated with a North Slope natural gas project. Section 38 amends AS 43.05.010 by adding paragraph (17) to provide that the DOR commissioner direct the disposition of revenues received from gas delivered to the state under AS 43.55.014(b) by entering into agreements with the DNR commissioner.

Section 39 adds new subsection (k) to AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the gas production tax in gas and the amount of gas subject to that election.

Section 40 amends AS 43.20.144(d) to clarify that gas delivered to the state as payment of tax under an election made by AS 43.55.014 (or similar provision of other taxing jurisdiction) is excluded from the sales factor of a taxpayer subject to the Alaska Net Income Tax Act. Also, fees paid between entities within the taxpayer's consolidated business for transporting the taxpayer's gas are excluded from the sales factor.

Section 41 amends AS 43.20.144(f) to clarify that gas subject to an election to pay the oil and gas production tax on gas as gas under AS 43.55.014 is included the extraction factor of a taxpayer subject to AS 43.20.144(f) in the Alaska Net Income Tax Act.

Bill sections relating to the oil and gas production tax (AS 43.55)

Section 42 amends AS 43.55.011(e), the levy of the oil and gas production tax, to add reference to the separate levy under AS 43.55.014 for certain North Slope gas. *For oil and gas produced after January 1, 2014 and before January 1, 2022*, AS 43.55.011(e)(2) would levy on producers of oil and gas produced each calendar year a flat rate tax of 35 percent of the production tax value of taxable oil and gas produced from each lease or property in the state. No change is made to current tax ceilings that apply to Cook Inlet oil and gas, gas produced outside the Cook Inlet basin and used in the state, and oil and gas produced from new fields outside the Cook Inlet basin and south of the North Slope.

For oil and gas produced on or after January 1, 2022, AS 43.55.011(e)(3) would levy on producers of oil produced each calendar year a flat tax rate of 35 percent of the production tax value of taxable oil produced from each lease or property in the state and on producers of gas, and a flat tax rate of 13 percent of the gross value at the point of production of gas produced from each lease or property in the state. The tax on gas for which the DOR commissioner has approved an election to pay in gas would be levied under AS 43.55.014.

Section 43 amends AS 43.55.011(f), the alternate minimum tax on North Slope oil and gas, to retain the current minimum tax until January 1, 2022. On and after January 1, 2022, the minimum tax would apply to oil produced on the North Slope. A minor amendment adds the reference to the tax applying to leases or properties "that include land" to ensure that property that straddles 68 degrees North latitude will be considered north of 68 degrees North latitude for purpose of the alternate minimum tax.

Section 44 adds AS 43.55.014, related to payment in gas of tax for gas. Subsection (a) allows producers to make an election, under regulations adopted by the DOR, to pay the oil and gas production tax on gas in gas for gas produced from oil and gas leases whose terms have been modified under AS 38.05.180(hh) from which the DNR commissioner has determined to take royalty gas in kind. Under subsection (b), the levy would be 13 percent of the taxable gas when and as the gas is produced. The producer would pay the tax by delivering the gas to the state at the point of production. Under subsection (c), the DNR would manage the custody and disposition of gas delivered to the state. Under subsection (d), tax deficiencies and interest and penalties on any tax deficiency would be accounted for in an amount of gas or an amount of money. If in money, the assessment is the product of the number of units by which the producer's delivery of gas to the state was deficient, multiplied by the gross value at the point of production for each unit of the producer's gas, other than gas not subject to tax, or delivered to the state under this section. Also, this subsection accounts for an overpayment of gas under AS 43.55.014. Subsection (e) clarifies that gas subject to this provision would not include gas flared, released, or allowed to escape and, under AS 43.55.020(e), considered as gas produced from a lease or property for the purpose of AS 43.55.011 - 180. This section would take effect on January 1, 2015 to be applied to gas produced from certain North Slope leases on and after January 1, 2022.

Sections 45 through 47 include conforming amendments to the oil and gas producer education credit, AS 43.55.019, to clarify that the credit can be applied to tax liability under AS 43.55.011(e) only. The credit is expanded to include expenditures related to nonprofit regional training centers and apprenticeship programs.

Section 48 amends AS 43.55.020(a), monthly installment payments of estimated tax, to add provisions for payment of tax after January 1, 2022 and to clarify the tax rates that apply to oil and gas produced after a certain date. Monthly installment payments for oil and gas produced on and after January 1, 2022 are in new subsection (a)(7).

Sections 49 and 50 are conforming changes to AS 43.55.020, monthly installment payments. Subsection (g) is amended to account for new tax provisions for oil and gas produced on and after January 1, 2022. A similar conforming change is made in AS 43.55.020(h) to account for interest on overpayments of installment payments.

Sections 51 and 52 amend AS 43.55.020(l) and add subsection (m), related to making settlements by a producer with private landowner royalty owner, to account for making a settlement with the royalty owner for gas taxable before January 1, 2022 and under new AS 43.55.014.

Section 53 amends AS 43.55.030(a), annual statements by producers and explorers, to require reporting of the amount of gas produced from a lease or property for which tax is levied under AS 43.55.014 and the amount of gas delivered to the state under AS 43.55.014.

Section 54 amends AS 43.55.160(a), calculation of annual production tax values, to clarify and conform to the levy of tax under AS 43.55.011(e)(2) for oil and gas produced before January 1, 2022.

Section 55 amends AS 43.55.160(e), related to determination of excess lease expenditures for the purpose of calculating a carried-forward loss credit, to account for annual production tax values for oil produced on and after January 1, 2022.

Section 56 amends AS 43.55.160(f), a 20 percent gross value reduction for certain oil and gas produced north of 68 degrees North latitude, so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

Section 57 amends AS 43.55.160(g), a 10 percent gross value reduction for certain oil and gas produced from a unit north of 68 degrees North latitude made up solely of leases that have a royalty share of more than 12.5 percent in amount or value of the production removed or sold from the lease so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

Section 58 amends AS 43.55.160, calculation of annual production tax values, to add a new subsection (h) for calculation of annual production tax values for oil produced on and after January 1, 2022. On and after January 1, 2022, gas would be taxed at a percentage of gross value. Accordingly, there would be no need to calculate a production tax value (gross value at point of production less lease expenditures) for gas. Producers would still calculate a production tax value of oil taxable under AS 43.55.011(e) for the segments set out in AS 43.55.160(h).

Section 59 makes a conforming amendment to AS 43.55.165, lease expenditures, to exclude as a deduction from lease expenditures the tax levied under AS 43.55.014 (tax paid as gas).

Sections 60 through 62 amend, for purposes of the oil and gas production tax, the definitions of "gas processing plants" and "point of production" for gas to be upstream of either the first point where it is accurately measured, the inlet of a pipeline transporting the gas to a gas treatment plant, or the inlet of any gas pipeline system transporting gas to market. The gas point of production is after mechanical separation. Section 62 adds a definition of "gas treatment plant".

Section 63 makes a conforming amendment to AS 43.90.900(18), the definition of the "point of production" for purposes of the Alaska Gasline Inducement Act.

Section 64 makes conforming amendments to AS 43.98.030, the film production tax credit, to limit the applicability of the credit to the tax levied by AS 43.55.011.

Section 65 amends AS 43.98.050, related to the duties of the Alaska Competitiveness Review Board, to include written findings and recommendations to the legislature before January 15, 2017 regarding the state's tax structure, rates, and incentives for oil and gas production south of 68 degrees North latitude.

Section 66 repeals AS 31.25.080(f) as unnecessary due to new provisions in AS 31.25. Subsection (f) related to the ability of the AGDC to, without delaying progress on an in-state natural gas pipeline, coordinate with developers of a large-diameter natural gas pipeline related to a certain geographic area.

Section 67 adds to uncodified law direction for the DNR commissioner to make a report, with recommendations, to the legislature on a plan and alternatives to make North Slope gas available for delivery and use in the state. Also, the DNR commissioner shall recommend means of addressing risks identified in the report. The report and recommendations are required to be available to the legislature on or before the date that a firm transportation services agreement in a North Slope natural gas project to which the state is a party is submitted to the legislature for approval.

Section 68 adds to uncodified law a legislative request that the governor establish an interim advisory board to advise the governor on municipal involvement in a North Slope natural gas project. The requested board is to provide reports, including recommendations, to the governor.

Section 69 adds to uncodified law a direction to the Alaska Energy Authority (AEA), in consultation with the AGDC, the Alaska Industrial Development and Export Authority, and the DOR, to develop plans relating to the delivery of energy - whether fossil fuel, hydro, tidal or other - to areas of the state not expected to have direct access to commercialization of North Slope gas through a North Slope natural gas pipeline. The AEA will also consider storage options, and recommendations related to means to make energy more affordable. The AEA and the DOR will consider and recommend funding possibilities. The AEA shall provide the plan and suggested legislation by January 1, 2017.

Section 70 adds to uncodified law a direction that the DOR commissioner identify and report to the legislature regarding financing options for state ownership and participation in a North Slope natural gas project. An interim draft report is to be available to the legislature on the first day of the first regular legislative session of the 29th Legislature. Also, the DOR commissioner is to consider and report, including submission of proposed legislation, to the legislature on options to allow municipalities, residents, or regional corporations to invest in a North Slope natural gas pipeline. The DOR commissioner is directed to consider relevant factors in preparing the plan and report, which is to be presented to the legislature when the DNR commissioner submits contracts to the legislature for approval under AS 38.05.020(b)(11).

Section 71 adds to uncodified law a requirement that the parties to a North Slope natural gas project provide briefings to interested legislators, their staff, and consultants on the progress of the project at least once every four months before the first flow of gas. A briefing must include a written report of the amount of money the state may be liable to pay for a North Slope natural gas project if the project is terminated before the first flow of gas.

Section 72 allows the DNR and the DOR to adopt regulations to implement this Act.

Sections 73 through 75 set effective dates for different sections of the bill. Sections 1-19, 22, 23, 30-34, 36, 37, 45, 47, and 63-72 would be effective immediately. The other sections would be effective January 1, 2015 except for section 46 (amending AS 43.55.019(a)), which takes effect January 1, 2021.



**HCS CSSB 138 (RES): Commercial Production of North Slope Gas
COMPARISION BETWEEN CSSB 138 (FIN) AM 28-GS2806I.A AND HCS CSSB 138 (RES) -
GS2806H**

April 11, 2014

This is a summary of the differences between CSSB 138 (FIN) am and HCS CSSB 138(RES). A summary should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Amendments to bill sections related to the Alaska Gasline Development Corporation (AS 31.25)

New section 3 amends AS 31.25.020(a), the composition of the AGDC board of directors, to remove a provision which would have allowed the governor to appoint the commissioner of natural resources and the commissioner of revenue to the AGDC board after a project under AS 43.90 (the Alaska Gasline Inducement Act) has been abandoned or the commissioners are no longer signatories on a valid contract under AS 43.90. With this amendment, the commissioners of natural resources and revenue may not be designated to serve on the AGDC board.

New section 4 amends AS 31.25.020 related to appointment of AGDC board members. A person appointed must be a citizen of the United States, but notwithstanding AS 39.05.100, a person is not required to be or have been a registered voter, and is not required to reside in the state.

An amendment was made to section 5, AS 31.25.040, to allow the AGDC board to appoint a separate program director for the in-state natural gas pipeline project, and to remove a requirement that the program director for the AK LNG project report to the AGDC board (but it retains the requirement that the program director for AK LNG project report to the AGDC executive director).

New sections 6 and 7 amend AS 31.25.050 to direct that the attorney general be legal counsel for the AGDC for legal services related to development of contracts and agreements by AGDC that relate to an Alaska liquefied natural gas project, and to consult with AGDC when procuring outside counsel. For these legal services, a new section amending AS 36.30.360 (bill section 17) was added to exempt the Department of Law from the procurement process when procuring legal counsel for AGDC for the AK LNG project. The AGDC retains the authority to retain legal counsel to advise the corporation in legal matters and represent it in litigation.

A clarifying amendment was made to section 13, the fund for AK LNG within AGDC that the revenues related to equity interests, contracts and other activities will be transferred to the appropriate fund *of the state* as determined by the commissioner of revenue (page 10, line 10).

Amendments to bill sections related to an Alaska affordable energy fund (AS 37.05)

Section 18 was amended so that the legislature may deposit into the Alaska affordable energy fund (a non-dedicated fund) 20 percent (instead of 10 percent) of the money received from the state's royalty gas transported in an AK LNG project (net of royalty payments to the Alaska permanent fund). The fund's purpose is to develop infrastructure to deliver energy to areas in the state not expected to have direct access to a North Slope natural gas pipeline.

Amendments to bill sections related to the Alaska Land Act (AS 38.05)

Changes were made to section 19, AS 38.05.020 amending the authority of the commissioner of the Department of Natural Resources (DNR) to enter into commercial agreements of not more than two years duration for project services related to the North Slope natural gas project. A new paragraph (13) was added to allow the DNR commissioner to consult with AGDC in the development of contracts or agreements for project services related to a gas treatment plant, pipeline, liquefaction facility, marine terminal, or marine transportation services.

As to AS 38.05.020(b)(12), related to contracts or agreements negotiated by the DNR commissioner, an addition was made that contracts must be available to the public at least 90 days before the proposed effective date for the terms. It was clarified in AS 38.05.020(b)(12)(B) that confidential information may be shared with legislators, their agents, or consultants, under confidentiality agreements.

New section 21 provides that an agreement or contract to which the state is a party (and is negotiated under AS 38.05.020(b)(11)) must include a requirement that the state have access to data developed under the contract if the DNR commissioner determines that a North Slope natural gas project is not making adequate progress towards a final investment decision. Subsection (b) provides that a proposed agreement or contract associated with a North Slope natural gas project may not include a provision that changes a payment in lieu of property tax on property that was previously taxable under AS 43.56.

Section 25 was added to amend AS 38.05.182(a) to direct that it is not in the best interest for the state to take royalty on gas in money from a lessee transporting North Slope natural gas if the lessee has committed to dispose of the state's royalty gas taken in kind on the same terms and conditions as the lessee markets or disposes of the lessee's gas.

Section 17 adds a provision to exempt the contracts for professional and technical services by DNR to support the development of agreements and contracts under AS 38.05.020(b)(10) and (11).

Amendments to bill sections relating to the Alaska Corporate Income tax (AS 43.20) oil and gas production tax (AS 43.55)

New section 40 was added to amend AS 43.20.144 to make clear that tax as gas is not considered a sales for the apportionment sales factor, and that fees within the consolidated business of the taxpayer paid for transporting natural gas are excluded from the numerator and denominator of the sales factor.

Bill section 44, on tax as gas, was amended to provide that tax deficiencies and interest and penalties on any tax deficiency for gas delivered to the state for production tax would be accounted for in an amount of gas or an amount of money (it had previously only allow deficiencies to be made up in money). If in money, the assessment is the product of the number of units by which the producer's

delivery of gas to the state was less than the amount required to be delivered as tax gas, multiplied by the gross value at the point of production for each unit of the producer's gas, other than gas not subject to tax, or delivered to the state under this section. This subsection also accounts for an overpayment of gas under AS 43.55.014.

Subsection (e) was amended to make clear that gas subject to the tax as gas provision would not include gas flared, released, or allowed to escape and, under AS 43.55020(e), considered as gas produced from a lease or property for the purpose of AS 43.55.011 -180.

Section 58, setting the calculation of production tax value for oil after 2022 under AS 43.55.160(h), was amended to make clear that lease expenditures for oil and gas expenditures are deductible for calculation of oil production tax value by changing "oil or gas deposits" to "oil and gas deposits."

Section 61, on the definition of the "point of production" for gas was further amended to make clear that the point of production for gas is, for gas recovered by mechanical separation but not run through a gas processing plant, the farthest upstream of the inlet of any gas pipeline system transporting the gas after mechanical separation to market.

Amendments to uncodified law

Amendments were made section 65, the Oil and Gas competitiveness review board, to add new (6)(B) to study and report to the legislature by January 15, 2017, on the oil and gas tax rates and possible incentives, including the value of a gross value reduction, for oil and gas producing areas south of 68 degrees North latitude.

New section 67 was added to direct the DNR commissioner, in consultation with AGDC, to prepare and make reports and recommendation on the delivery and availability of North Slope natural gas in the state, including identification of the means for eliminating the risks and liabilities identified in the report.

Amendments were made to section 68 requesting the Governor to establish an interim advisory board to consider the effect of a natural gas pipeline on municipalities. The amendment was to include portions of Administrative Order 269 in the bill.

A provision was added to section 70 so that the DOR commissioner shall identify and report to the legislature on a range of financing options for state acquisition of an ownership interest and participation in a North Slope natural gas project. The interim draft report will be made available on the first day of the First Regular Session of the Twenty-Ninth Alaska State Legislature, with a final report due at the time the DNR commissioner submits the first agreement or contract to the legislature under AS 38.05.020(b)(11).

New section 71 requires that the parties to the Alaska liquefied natural gas project provide briefings months before the first flow of gas in an Alaska liquefied natural gas project to interested legislators, their staff, and consultants on the progress of the project at least once every four. A briefing must include a written report from the DNR of the amount of money the state may be obligated to pay for an Alaska liquefied natural gas project if the project is terminated before the first flow of gas.

ALASKA STATE LEGISLATURE



**REPRESENTATIVE PAUL SEATON, REPRESENTATIVE ERIC FEIGE,
REPRESENTATIVE PEGGY WILSON, REPRESENTATIVE KURT OLSON,
REPRESENTATIVE CRAIG JOHNSON, REPRESENTATIVE GERAN TARR,
REPRESENTATIVE SCOTT KAWASAKI**

April 15, 2014

Governor and Alaska Legislature

Governor Parnell and members of the 28th Alaska State Legislature,

We, the undersigned legislators, submit the following list of issues that were put on the record during the legislative process for SB 138. While these ideas were ultimately considered not ripe for inclusion as specific amendments to SB 138 at that time, we are highlighting them for your administration as you proceed with negotiations under the enabling legislation.

The intent of the undersigned legislators in submitting this letter is to provide an outline of the concerns that will continue to follow the AK LNG concept as contracts are negotiated and the legislature is required to act on these contracts in the future. The items below provide direction for what legislators want to see when agreements come back before the legislature for approval:

- In negotiating contracts, the commissioners shall not negotiate changes in oil production tax and no terms shall be included in a contract to require compensation for any future changes in oil production tax.
- Any change to property taxes enabled via a payment in lieu of taxes may not reduce the revenue that would be received by the state and municipalities to

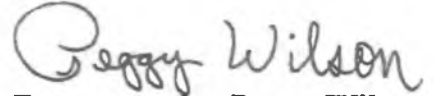
to less than what would have been otherwise received under the current property tax statutes.

- An agreement or contract negotiated for the AK LNG project may not include the conversion to a payment in lieu of property tax system to the state or to a municipality before a final investment decision is made for the project, although impact payments may be arranged for before final investment decision.
- The marketing decisions and contracts for the state's LNG must be fully resolved before the final decision is made to modify leases with a long term commitment to take royalty in kind.
- The pipeline must be designed and operated to allow adequate expansion at reasonable terms that will encourage additional exploration and development of North Slope resources and in no case will a non-expansion party be required to pay more than their initial shipping cost per mcf.
- The state must retain the ability to expand its share of the project even if we are in disagreement with our midstream partner.
- Project partners, whether through direct provision or via impact payments made to the state and municipalities, shall adequately participate to provide the necessary infrastructure required for the construction and operation of the LNG project.
- Any final decision to invest in an equity stake in the pipeline must be made with the full authorization of the legislature.
- The state may bring in partners to own and operate all or part of our share of the project, under commercially reasonable terms if in the best interest of the state.
- Any disputes arising during the project must be handled in such a way that best protects the state's interests, ideally in Alaska courts.

Sincerely, House Resources Committee Members

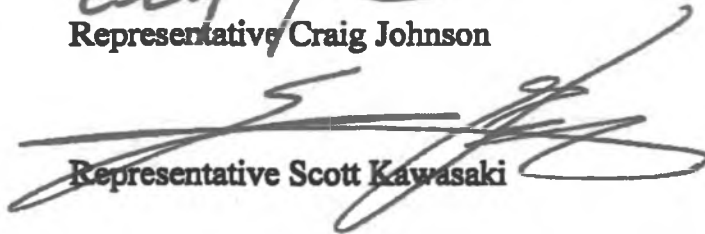

Representative Paul Seaton


Representative Eric Feige


Representative Peggy Wilson


Representative Craig Johnson


Representative Kurt Olson


Representative Scott Kawasaki


Representative Geran Tarr



April 18, 2014

The Honorable Eric Feige, Co-Chair
 The Honorable Dan Saddler, Co-Chair
 House Resources Committee
 Alaska State Capitol, Room 124
 Juneau, Alaska 99801

Dear Representatives Feige and Saddler:

Please find the following responses to questions raised by Representative Geran Tarr during the April 9, 2014 House Resources Committee hearing on SB 138. Representative Tarr's questions are indicated in italics with our responses detailed below.

What is the current balance of the In-State Natural Gas Pipeline Fund?

In-State Natural Gas Pipeline Fund (AS 31.25.100)	
<i>(\$ Millions)</i>	
Total Legislative Appropriations*	\$ 419.8
Expenditures Through FY13	\$ (48.4)
Fund Balance Start of FY14	\$ 371.5
<i>FY14 Activity (as of 4/8/14)</i>	
Interest & Earnings (through 2/28/14)	\$ 1.6
Expenditures	\$ (32.9)
Obligations	\$ (102.3)
Unobligated Balance	\$ 237.9
* The In-State Natural Gas Pipeline Fund was established in FY13. \$419.8 represents all appropriations to AGDC from FY10-FY14.	

How much has the Corporation spent on the AKLNG initiative? Does the Corporation intend to reimburse the In-State Natural Gas Pipeline Fund for those expenditures?

AGDC's enabling legislation, Chapter 11 SLA 2013 (HB 4) at AS 31.25.080(f), directs the Corporation to coordinate with, and accommodate, the developers of a large-diameter in-state natural gas pipeline by planning for the development and use of common pipeline facilities as long as that cooperation doesn't delay the progress of the Alaska Stand Alone

Pipeline (ASAP) project. AGDC has engaged in various meetings and other efforts to comply with AS 31.25.080(f) and has spent approximately \$1.0 million through the end of March on those efforts.

SB 138 establishes a new Alaska Liquefied Natural Gas Project Fund to fund expenditures related to the State's participation in the AKLNG project. AGDC is requesting a FY14 supplemental appropriation of \$67.3 million to capitalize this new fund. This is the minimum amount necessary to fund the Corporation's FY14 and FY15 AKLNG pre-FEED activities. SB 138 would authorize AGDC to spend money from the fund for purposes related to the AKLNG project without further appropriation. If the legislature provides an appropriation sufficient to cover the cost of Corporation's AKLNG activities to date, it is our intention to reimburse the In-State Natural Gas Pipeline Fund for all AKLNG related direct expenses. Going forward, AGDC will be developing a methodology for allocating Corporate overhead costs to the ASAP project and AKLNG project as appropriate.

I hope committee members find this information helpful. Please don't hesitate to contact me if you have further questions.

Very respectfully,



Dan Fauske
President

Copy

Rep. Geran Tarr
Rep. Bill Stoltze, Co-Chair, House Finance Committee
Rep. Alan Austerman, Co-Chair, House Finance Committee

LETTER OF CLARIFICATION TO
MEMORANDUM OF UNDERSTANDING

The undersigned parties ("Parties") to the Memorandum of Understanding dated December 12, 2013 ("MOU") wish to enter into this Letter of Clarification in order to clarify certain provisions of the MOU.

The Parties intended the MOU to provide:

(1) that TADI, or its affiliate, would execute the Precedent Agreement and the AKLNG Project Equity Option Agreement with the State in 2014 within 90 days of the effective date of Enabling Legislation which is in a form acceptable to the Parties under the MOU,

(2) that promptly after the Precedent Agreement and the AKLNG Project Equity Option Agreement are executed, the State and the Licensee would execute a document formally terminating and abandoning the AGIA license pursuant to the process for an uncontested abandonment set forth in and pursuant to AS 43.90.240(a), and

(3) TADI, or its affiliate, and the State would then negotiate the Firm Transportation Services Agreement contemplated in the MOU ("FTSA") and submit such FTSA to the Alaska Legislature in a legislative session in 2015, and then execute such FTSA prior to December 31, 2015 if it is approved by the Legislature.


It has been brought to the attention of the Parties that certain definitions in the MOU could be interpreted contrary to the intent of the Parties as set forth above. To clarify the intent of the Parties, notwithstanding a potential contrary interpretation in the MOU definitions, the Parties agree that the Parties' intent set forth in (1)-(3) above is correct and supersedes any contrary intent that may be inferred from the definitions and other language in the MOU.

Capitalized terms used but not defined herein shall have the meanings set out in the MOU.


THE STATE OF ALASKA

TRANSCANADA ALASKA COMPANY, LLC


By:


Name: Joseph R. Balash
Title: Commissioner DNR

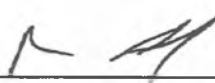
By:


Name: Anthony M. Palmer
Title: President

By:

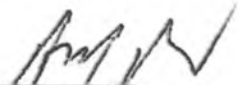

Name: Angela Rodell
Title: Commissioner
Department of Revenue

By:

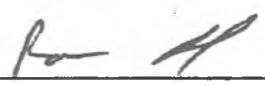

Name: Ronald L. Cook
Title: Vice-President, Taxation

Date: _____

FOOTHILLS PIPE LINES LTD.

By: 

Name: Anthony M. Palmer
Title: President

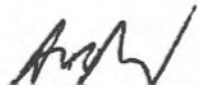
By: 

Name: Ronald L. Cook
Title: Vice-President, Taxation

Date: April 4, 2014

Date: April 4, 2014

**TRANSCANADA ALASKA DEVELOPMENT
INC.**

By: 

Name: Anthony M. Palmer
Title: President

By: 

Name: Ronald L. Cook
Title: Vice-President, Taxation

Date: April 4, 2014

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (the "MOU") is entered into and effective this 14th day of January, 2014 (the "Effective Date") by and between the Alaska Gasline Development Corporation ("AGDC") and the State of Alaska (the "State") acting through the Commissioner of the Alaska Department of Natural Resources and the Commissioner of the Alaska Department of Revenue (the "Commissioners").

WHEREAS, the State has entered into a separate Memorandum of Understanding dated and effective December 12, 2013, with TransCanada Alaska Company, LLC, Foothills Pipe Lines Ltd., and TransCanada Alaska Development Inc. ("TADI") (the "TC Agreement"); and

WHEREAS, Exhibit B to the TC Agreement contains an Alaska LNG Project Equity Option Term Sheet (the "Option Term Sheet"); and

WHEREAS, the Option Term Sheet describes a process pursuant to which TADI would create a separate entity as part of an integrated set of negotiated agreements among the parties to hold an equity participation interest in the midstream component of the Alaska LNG Project (the "TADI Affiliate"). Providing the State obtains Enabling Legislation authorizing the various components of the TC Agreement, and the State and TC subsequently negotiate and enter into the various transactional agreements provided for in the TC Agreement, and the TADI Affiliate subsequently negotiates and enters into an agreement with the Producers to acquire an equity interest in the midstream component of the Alaska LNG Project (the "Subsequent Agreements"), then the TADI Affiliate would grant the State an option (the "Option") for the State to purchase an equity interest in the TADI Affiliate that will hold an equity participation interest in the midstream component (as defined in Paragraph 1 of the Option Term Sheet); and

WHEREAS, the Option Term Sheet includes a requirement that the final TADI and State Agreements will include a provision to permit the State to assign the Option to an Affiliate of the State (as such term is defined in Section 1.1 of the TC Agreement) at its discretion; and

WHEREAS, AGDC is an Affiliate of the State for purposes of the preceding clause; and

WHEREAS, the State has preliminarily determined that transferring the Option to AGDC is in the interest of the State, subject to the occurrence of the TC Agreement contingencies set forth above, and subject further to authorization by the State Legislature of such transfer and the terms upon which such transfer would be effected, including re-transfer of the Option to the State if not exercised (the "Conditions Precedent"); and

WHEREAS, AGDC has preliminarily determined, subject to the Conditions Precedent and review and approval of the terms of the final TC Agreement transactional agreements and the State Legislative authorization and Option transfer terms, that receiving the Option from the State is in the interest of AGDC;

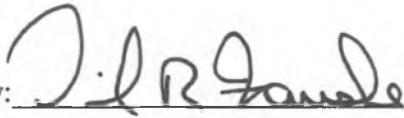
NOW, THEREFORE, AGDC and the State hereby agree as follows:

SECTION 1. Upon execution of the Subsequent Agreements, the State agrees to promptly transfer the Option to AGDC, and AGDC agrees to accept such transfer, upon the occurrence of the Conditions Precedent and in conformance with the directives of the Legislature.

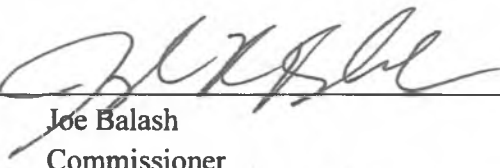
SECTION 2. AGDC and the State recognize that this Agreement does not address all of the matters that must be dealt with or all of the terms and conditions needed to finalize the Option Transfer Agreement. AGDC and the State intend to work together and use commercially reasonable efforts to reach agreement on such additional terms and conditions. AGDC and the State acknowledge that the approval of a final Option Transfer Agreement remains subject to approval by the management teams of AGDC and the State.

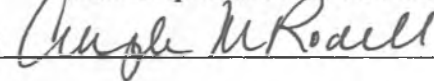
IN WITNESS WHEREOF, the State and AGDC have signed this MOU as of the Effective Date.

ALASKA GASLINE DEVELOPMENT CORPORATION

By: 
Daniel R. Fauske
Executive Director

STATE OF ALASKA

By: 
Joe Balash
Commissioner
Alaska Department of Natural Resources

By: 
Angela M. Rodell
Commissioner
Alaska Department of Revenue