

SB

138

(FILE 1)

<TARGET><BILL>SB 138</BILL><SUBJECT>SB 138 (FILE
1)</SUBJECT><COMM>SFIN28</COMM></TARGET>

SENATE FINANCE COMMITTEE REPORT

DATE: 2/24/14

FURTHER:

DATE TURNED
IN TO OFFICE: _____

Finance Committee considered SENATE BILL NO. 138

SB 138-GAS PIPELINE; AGDC; OIL & GAS PROD. TAX

"An Act relating to the purposes of the Alaska Gasline Development Corporation to advance to develop a large-diameter natural gas pipeline project, including treatment and liquefaction facilities; establishing the large-diameter natural gas pipeline project fund; creating a subsidiary related to a large-diameter natural gas pipeline project, including treatment and liquefaction facilities; relating to the authority of the commissioner of natural resources to negotiate contracts related to North Slope natural gas projects, to enter into confidentiality agreements in support of contract negotiations and implementation, and to take custody of gas delivered to the state under an election to pay the oil and gas production tax in kind; relating to the sale, exchange, or disposal of gas delivered to the state under an election to pay the oil and gas production tax in kind; relating to the duties of the commissioner of revenue to direct the disposition of revenues received from gas delivered to the state in kind and to consult with the commissioner of natural resources on the custody and disposition of gas delivered to the state in kind; relating to the authority of the commissioner of natural resources to propose modifications to existing state oil and gas leases; making certain information provided to the Department of Natural Resources and the Department of Revenue exempt from inspection as a public record; making certain tax information related to an election to pay the oil and gas production tax in kind exempt from tax confidentiality provisions; relating to establishing under the oil and gas production tax a gross tax rate for gas after 2021, making the alternate minimum tax on oil and gas produced north of 68 degrees North latitude after 2021 apply only to oil, relating to apportionment factors of the Alaska Net Income Tax Act; authorizing a producer's election to pay the oil and gas production tax in kind for certain gas and relating to the authorization; relating to monthly installment payments of the oil and gas production tax; relating to interest payments on monthly installment payments of the oil and gas production tax; relating to settlements between producers and royalty owners for oil and gas production tax; relating to annual statements by producers and explorers; relating to annual production tax values; relating to lease expenditures; amending the definition of gross value at the 'point of production' for gas for purposes of the oil and gas production tax; adding definitions related to natural gas terms; clarifying that credit may not be taken against the in-kind levy of the oil and gas production tax for gas for purposes of the exploration incentive credit, the oil or gas producer education credit, and the film production tax credit; making conforming amendments; and providing for an effective date."

and recommends:

- be replaced with CS SB 138 (FIN) [] Same Title New Title
- adopt previous CS _____ (_____) [] Same Title [] New Title
- attached amendment(s)
- adopt SB 138 Letter of Intent
- further referral to _____ Committee

Dept Abbr.	
ADM	LWF
CED	LAW
COR	LEG
CRT	MVA
EED	DNR
DEC	DPS
DFG	REV
GOV	DOT
DHS	UA

NEW FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
DNR	✓			
CED	✓			
CED	✓			
CED	✓			
REV	✓			

PREVIOUS FISCAL NOTE(S)				
Dept.	Fiscal	Indet.	Zero	FN #
REV	✓			4

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	DUNLEAVY	✓			
Anna Fairclough	FAIRCLOUGH	X			
Cliff Bishop	Bishop	X			
	Hoffman	✓			
	Gerson				✓
CO-CHAIR:	Kelly	✓			
CO-CHAIR:	Meyer	X			

ALASKA STATE LEGISLATURE

Session:

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Senator Click Bishop

Letter of Intent for SB138

It is the intent of the Alaska State Legislature that the Alaska LNG project honor the commitments, as copied below, made in "Article 11: Alaska Hire and Content", agreed to in the Heads of Agreement by and among the Administration of the State of Alaska, Alaska Gas-line Development Corporation, TransCanada Alaska Development Inc., ExxonMobil Alaska Production Inc., ConocoPhillips Alaska, Inc., and BP Exploration (Alaska) Inc. through construction of the project.

ARTICLE 11: ALASKA HIRE AND CONTENT

11.1 For the Alaska LNG Project, the Alaska LNG Parties will, within the constraints of law:

- a. Employ Alaska residents and contract with Alaska businesses to the extent they are qualified, available, ready, willing and cost competitive;
- b. Use, as far as practicable, job centers and associated services operated by the State Department of Labor and Workforce Development;
- c. Participate with the State Department of Labor and Workforce Development to update the training plan for an LNG export project including main operations;
- d. Advertise for available positions locally and use, as far as practicable, Alaska job service organizations to notify the Alaska public; and
- e. Work with the State Department of Labor and Workforce Development and other organizations to provide training.

11.2 Prior to construction, the Alaska LNG Parties commit to negotiate in good faith project labor agreements for the Alaska LNG Project.

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Senator Click Bishop

Proposed Letter of Intent for SB138

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11.2 Prior to construction, the Alaska LNG Parties commit to negotiate in good faith project labor agreements for the Alaska LNG Project.

Alaska State Legislature

SENATOR PETE KELLY

SESSION:
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Juneau, AK 99801
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Fairbank, AK 9970
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SB 138

Version 28-2806\Y

Date: March 11, 2014

By: Bruce Campbell *BC*

Drafting Instructions for the new CS

General instruction: The title is too tight, please shorten the language in a manner that covers the topics, but is not virtually ensured to require a title change in the House.

- 1) Page 12, line 31: As 31.25.005 (4) should be AS 31.25.005 (5), per the changes the CS makes to 31.25.005 in section 2.
- 2) Page 26, after line 24: Insert the language as in version (O)
“(15) report to the legislature before February 15 of each year the total amount of contributions reported and the total amount of credit claimed during the previous calendar year under AS”
- 3) Page 26, line 27, after (15) delete the word [REPEALED]
(this doesn't seem associated with any other change and appears out of place)
- 4) Page 28, after line 7, reinsert the language from Version (O) Section 26 amending AS 43.05.230 to add a new
“(k) The name of each person that the department has allowed to make an election under AS 43.55.014(a) and the amount of gas produced from each lease or property to which an effective election under AS 43.55.014 applies is public information.”
- 5) Page 29, Delete Sections 33 and 34, renumber accordingly. (Be sure title retains:” relating to apportionment factors of the Alaska Net Income Tax”)
(Section 33 and 34 are redundant, DOR is not sure which is right at this time.)

ALASKA STATE LEGISLATURE
SENATE FINANCE COMMITTEE

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CS for SB 138 (FIN)

Version 28-2806\R

Date: March 13, 2014

By: Bruce Campbell *BC*

Technical Drafting Corrections

For adoption by Senate Finance Committee

- 1) Page 16, line 20: Delete: "form" replace with "from"
- 2) Page 17, line 29: Delete: "form" replace with "from"
- 3) Page 10, Lines 15 & 16, Section 12, (7)(C). Style issue, there appears to be an extra "and" or one too many commas.

- 4) Page 19, line 25, after "from state oil and gas", insert: "and gas only"

Conforms language to the technically correct reference in DNR statutes, per the convention throughout 38.05, which refers to "oil and gas and gas only" leases.

- 5) Page 52, line 31, after "enacted by sec." delete "15"
insert "13"

- 6) Conform sections to retain effective dates.

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Memo

S Fin CS SB 138 version 28-GS-2806\R

March 13, 2014

Revision 2

By: Bruce Campbell *Bruce*

Summary of Proposed Changes

From Senate Finance CS for CCSB 138 (RES) Work Draft \Y to Work Draft \R

Title

Significantly shorter title, per instructions from Senate Finance Committee.

Intent

Intent language at the beginning of the bill is removed. (Amendment #9, Kelly)

AGDC Sections

- Page 2, line 23 Changes the term "benefit" to "maximum benefit". (Amendment #8, Administration)
- Page 4: Removes an amendment which would have prohibited DNR and DOR commissioners from being appointed to the AGDC board of directors (formerly Section 4). (Fairclough Amendment #10) (AGDC board is not changed.)
- Page 4, lines 24-27 Adds language requiring the AGDC board to appoint a program director for an AK LNG project. The director serves at the pleasure of the board, and reports to the executive director and the board. (Amendment #6, Administration)
- Page 7, lines 15-19 Adds language enabling AGDC to enter into contracts relating to an AK LNG project, but only after consulting with the DNR and DOR commissioners. Outlines some of the contracts AGDC can enter into. (Amendment #7, Administration)

DOR Sections

- Page 24, lines 20-23 Restores a reporting requirement inadvertently left out the prior version; the reporting requirement is in existing statute and is not new to SB 138. (Technical revision)

Page 24, line 26 Removes "REPEALED" phrase that was a drafting error in the prior version (Technical revision)

Page 26, lines 7-11 Restores a new subsection (k) to 43.05.230, confidentiality of taxpayer information, that was mistakenly left out of the prior version. The new subsection was originally in SB 138. The language makes public the name of each entity that elects to pay production tax with gas, and the amount of gas produced from each lease that an election applies to. (Technical revision)

Tax Sections

Page 26 Removes two sections in the prior version that were close duplicates. The former Sections 33 and 34 amended the sales apportionment factor involved in calculating corporate income tax. The Administration may seek to add this language again, but is not prepared to do so at this time. (Administration / Technical revision)

Uncodified Sections

Page 52, line 25 to Page 53, line 8 Adds a new section to uncodified law prohibiting a public officer of the state who participated substantially in contract negotiations under AS 38.05.020(b)(11), related to an Alaska LNG project from working for or receiving compensation from another party, or affiliate of a party, to those contracts, for three years. (Olson Amendment #3)

Technical Sections

Page 55, lines 29-31 Amends effective dates based on section renumbering.

BWC/RD

WITHDRAWN

28-GS2806\Y.1
Nauman/Bullock
3/9/14

AMENDMENT |

OFFERED IN THE SENATE

TO: CSSB 138(FIN), Draft Version "Y"

1 Page 3, following line 12:

2 Insert new paragraphs to read:

3 "(1) natural gas deposits on the North Slope are a resource belonging to all the
4 people in the state and to future generations in the state;

5 (2) North Slope natural gas can be a critical resource for providing energy to
6 markets throughout the world;

7 (3) it is important that the benefits of developing, processing, and transporting
8 the natural gas resources of the state be shared by all the people of the state;

9 (4) there is a large variance in the cost of energy between the different areas of
10 the state, with some areas bearing an energy cost burden that is many times greater than that
11 of residents in other areas of the state; the high cost of energy places a huge burden on many
12 families and stifles economic development;

13 (5) to the fullest extent possible, the purposes of the Alaska Gasline
14 Development Corporation are to advance an in-state natural gas pipeline, to endeavor to
15 deliver natural gas and the components of natural gas to public utilities and industrial
16 customers at commercially reasonable rates, and to endeavor to develop pipelines and other
17 means of transportation that offer access and commercially reasonable rates for shippers to
18 deliver natural gas and its components in the state;"

19

20 Renumber the following paragraphs accordingly.

21

22 Page 4, following line 26:

23 Insert a new subsection to read:

1 "(c) It is the intent of the legislature that the Alaska Gasline Development Corporation
2 continue its work to develop a project that will reduce the high cost of energy in some areas of
3 the state by determining the best means for delivering natural gas and its components at a
4 reasonable cost."

WITHDRAWN

28-GS2806\Y.2
Nauman/Bullock
3/9/14

AMENDMENT 2

OFFERED IN THE SENATE

TO: CSSB 138(FIN), Draft Version "Y"

1 Page 15, line 10, following "paragraph":

2 Insert "(A)"

3

4 Page 15, line 12, following "contract":

5 Insert "and

6 (B) may not change the taxation of property taxable under
7 AS 29.45 or AS 43.56 without the consent of the municipality in which
8 taxable property used exclusively for a North Slope natural gas project is
9 located:"

10

11 Page 17, line 4, following "paragraph":

12 Insert "(A)"

13

14 Page 17, line 6, following "contract;":

15 Insert "and

16 (B) may not change the taxation of property taxable under
17 AS 29.45 or AS 43.56 without the consent of the municipality in which taxable
18 property used exclusively for a North Slope natural gas project is located;"

ADOPTED 3/11/14

28-GS2806\Y.3
Nauman/Bullock
3/9/14

AMENDMENT 3

OFFERED IN THE SENATE

TO: CSSB 138(FIN), Draft Version "Y"

1 Page 3, line 7, following "project;":

2 Insert "relating to a restriction on employment after leaving state service for a
3 public officer who negotiates a contract or develops terms for inclusion in a proposed
4 contract associated with a North Slope natural gas project;"

5
6 Page 56, following line 14:

7 Insert a new bill section to read:

8 "* Sec. 60. The uncodified law of the State of Alaska is amended by adding a new section to
9 read:

10 RESTRICTIONS ON EMPLOYMENT AFTER LEAVING STATE SERVICE FOR
11 CERTAIN PUBLIC OFFICERS. (a) Notwithstanding AS 39.52.180, a public officer who
12 leaves state service may not, for ~~10~~^{insert 3} years after leaving state service, represent, advise, assist
13 for compensation, or accept employment from a person or an affiliate of a person that was a
14 party to a contract negotiated under the authority of AS 38.05.020(b)(11), enacted by sec. 15
15 of this Act, that was under consideration or negotiated by the administrative unit served by
16 that public officer, and in which the public officer participated personally and substantially
17 through the exercise of official action.

18 (b) This section does not prohibit an agency from contracting with a former public
19 officer to act on a matter on behalf of the state.

20 (c) The application of (a) of this section may not be waived.

21 (d) In this section, "administrative unit," "agency," and "public officer" have the
22 meanings given in AS 39.52.960."

23

1 Renumber the following bill sections accordingly.

2

3 Page 59, line 4:

4 Delete "63"

5 Insert "64"

6

7 Page 59, line 7:

8 Delete "secs. 64 and 65"

9 Insert "secs. 65 and 66"

WITHDRAWN

28-GS2806\Y.4
Nauman/Bullock
3/9/14

AMENDMENT

4

OFFERED IN THE SENATE

BY SENATOR KELLY BY REQUEST

TO: CSSB 138(FIN), Draft Version "Y"

1 Page 7, following line 6:

2 Insert a new bill section to read:

3 **** Sec. 6.** AS 31.25.050 is amended to read:

4 **Sec. 31.25.050. Legal counsel.** The corporation shall retain legal counsel to
5 advise the corporation in legal matters and represent it in litigation. **For purposes of**
6 **this section, the attorney general is the legal counsel for the corporation for issues**
7 **related to an Alaska liquefied natural gas project.**

8

9 Renumber the following bill sections accordingly.

10

11 Page 15, line 26:

12 Delete "sec. 15"

13 Insert "sec. 16"

14

15 Page 19, line 16:

16 Delete "sec. 18"

17 Insert "sec. 19"

18

19 Page 23, line 8:

20 Delete "sec. 28"

21 Insert "sec. 29"

22

23 Page 26, line 28:

1 Delete "sec. 31"

2 Insert "sec. 32"

3

4 Page 56, lines 24 - 25:

5 Delete "sec. 24"

6 Insert "sec. 25"

7

8 Page 57, line 23:

9 Delete "sec. 15"

10 Insert "sec. 16"

11

12 Page 59, line 4:

13 Delete "15, 17, 18, 24 - 28, 30, 31, 39, 41, and 57 - 63"

14 Insert "16, 18, 19, 25 - 29, 31, 32, 40, 42, and 58 - 64"

15

16 Page 59, line 6:

17 Delete "Section 40"

18 Insert "Section 41"

19

20 Page 59, line 7:

21 Delete "secs. 64 and 65"

22 Insert "secs. 65 and 66"

WITHDRAWN

28-GS2806\Y.5
Nauman/Bullock
3/9/14

AMENDMENT 5

OFFERED IN THE SENATE

BY SENATOR KELLY BY REQUEST

TO: CSSB 138(FIN), Draft Version "Y"

1 Page 8, line 4, following "corporation":

2 Insert "except that assets related to the in-state natural gas pipeline may not be
3 subject to levy for a debt or obligation of an Alaska liquefied natural gas project and
4 assets related to an Alaska liquefied natural gas project may not be subject to levy for a
5 debt or obligation of the in-state natural gas pipeline"

ADOPTED 3/11/14

28-GS2806\Y.6
Nauman/Bullock
3/9/14

AMENDMENT 6

OFFERED IN THE SENATE

BY SENATOR KELLY BY REQUEST

TO: CSSB 138(FIN), Draft Version "Y"

1 Page 6, line 29:

2 Delete "a new subsection"

3 Insert "new subsections"

4

5 Page 7, following line 6:

6 Insert a new subsection to read:

7 "(d) The board shall appoint a program director for an Alaska liquefied natural
8 gas project. The program director appointed under this section shall

9 (1) serve at the pleasure of the board; and

10 (2) report to the board and the executive director of the corporation."

Adopted 3/11/14

28-GS2806Y.7
Nauman/Bullock
3/9/14

AMENDMENT 7

OFFERED IN THE SENATE

BY SENATOR KELLY BY REQUEST

TO: CSSB 138(FIN), Draft Version "Y"

1 Page 9, line 24, following "project":

2 Insert ":

3 (24) after consultation with the commissioner of revenue and the
4 commissioner of natural resources, enter into contracts relating to an Alaska
5 liquefied natural gas project, including contracts for services related to
6 operation, marketing, transportation, gas treatment, marine terminal operation,
7 or liquefaction"

ADOPTED 3/11/14

AMENDMENT #8

OFFERED IN THE SENATE

BY SENATOR Kelly

By request

TO: CS SB 138 (RES) 28-GS2806\Y

Page 5, line 1:

Delete **"that benefits the state and the"**

Insert **"for the maximum benefit of the"**

ADOPTED 3/11/14

AMENDMENT #9

OFFERED IN THE SENATE

BY SENATOR Kelly

TO: CS SB 138 (RES) 28-GS2806\Y

Page 3, line 10, through page 4, line 26:

Section 1: Delete all

(This amendment would delete all intent language.)

ADOPTED 3/11/14
AMENDMENT 10

OFFERED IN THE SENATE

BY SENATOR Fairclough

By request

TO: CS SB 138 (RES) 28-GS2806\Y

Page 6

Delete lines 18 - 28 (Section 4)

ADOPTED
3/14/14

28-GS2806R.1
Nauman/Bullock
3/13/14

AMENDMENT #1

OFFERED IN THE SENATE

BY SENATOR BISHOP

TO: CSSB 138(FIN), Draft Version "R"

1 Page 2, line 4, following "gas;":

2 Insert "relating to the oil or gas producer education credit;"

3

4 Page 30, line 19, following "programs,":

5 Insert "equipment."

6

7 Page 30, line 20, following "school":

8 Insert ", a nonprofit regional training center recognized by the Department of
9 Labor and Workforce Development, and an apprenticeship program in the state that is
10 registered with the United States Department of Labor under 29 U.S.C. 50 - 50b
11 (National Apprenticeship Act)"

12

13 Page 31, line 1:

14 Delete "and"

15 Following "2012,":

16 Insert "and sec. 36 of this Act"

17

18 Page 31, lines 10 - 11:

19 Delete all material and insert:

20 "(3) for vocational education courses, programs, equipment, and
21 facilities by a state-operated vocational technical education and training school, a
22 nonprofit regional training center recognized by the Department of Labor and
23 Workforce Development, and an apprenticeship program in the state that is

1 registered with the United States Department of Labor under 29 U.S.C. 50 - 50b
2 (National Apprenticeship Act); and"

ADOPTED
3/14/14

28-GS2806\R.2
Bullock
3/13/14

AMENDMENT #2

OFFERED IN THE SENATE

BY SENATORS HOFFMAN, BISHOP,

TO: CSSB 138(FIN), Draft Version "R"

AND OLSON

1 Page 2, line 13, following "**development**";

2 Insert "**establishing the rural capital energy fund**";

3

4 Page 11, following line 26:

5 Insert a new bill section to read:

6 "*** Sec. 13.** AS 37.05 is amended by adding a new section to article 6 to read:

7 **Sec. 37.05.610. Rural capital energy fund.** (a) The rural capital energy fund
8 is created as a special account in the general fund. The fund consists of the amount
9 determined and deposited in the fund under (b) of this section and interest earned on
10 the fund balance. The purpose of the fund is to provide a source from which the
11 legislature may appropriate money to develop infrastructure to deliver energy to areas
12 of the state that are not expected to have or do not have direct access to a North Slope
13 natural gas pipeline.

14 (b) The amount to be deposited in (a) of this section is ¹⁰~~30~~ percent of the
15 revenue received from the state's royalty gas transported in an Alaska liquefied natural
16 gas project that remains after the payment to the Alaska permanent fund under
17 AS 37.13.010.

18 (c) The legislature may make appropriations from the rural capital energy fund
19 for the purpose described in (a) of this section.

20 (d) Nothing in this section creates a dedicated fund.

21 (e) In this section,

22 (1) "Alaska liquefied natural gas project" has the meaning given in
23 AS 31.25.390;

1 (2) "North Slope natural gas pipeline" has the meaning given in
2 AS 42.06.630."

3
4 Renumber the following bill sections accordingly.

5
6 Page 13, line 21:

7 Delete "sec. 13"
8 Insert "sec. 14"

9
10 Page 17, line 11:

11 Delete "sec. 16"
12 Insert "sec. 17"

13
14 Page 21, line 3:

15 Delete "sec. 26"
16 Insert "sec. 27"

17
18 Page 24, line 27:

19 Delete "sec. 29"
20 Insert "sec. 30"

21
22 Page 52, line 31:

23 Delete "sec. 15"
24 Insert "sec. 16"

25
26 Page 53, lines 18 - 19:

27 Delete "sec. 22"
28 Insert "sec. 23"

29
30 Page 54, line 17:

31 Delete "sec. 13"

1 Insert "sec. 14"

2

3 Page 55, line 29:

4 Delete "Sections 1 - 13, 15, 16, 22 - 26, 28, 29, 36, 38, and 54 - 61"

5 Insert "Sections 1 - 14, 16, 17, 23 - 27, 29, 30, 37, 39, and 55 - 62"

6

7 Page 55, line 31:

8 Delete "Section 37"

9 Insert "Section 38"

10

11 Page 56, line 1:

12 Delete "secs. 62 and 63"

13 Insert "secs. 63 and 64"

Adopted 3/14

28-GS2806\R.3
Bullock
3/13/14

AMENDMENT #3

OFFERED IN THE SENATE

BY SENATOR KELLY

TO: CSSB 138(FIN), Draft Version "R"

1 Page 8, lines 22 - 24:

2 Delete "but may not use money appropriated to the fund for the purposes
3 described in AS 31.25.005(5)"

4

5 Page 9, lines 8 - 9:

6 Delete ", but the corporation may not use the money appropriated to the fund for the
7 purposes described in AS 31.25.005(4)"

8

9 Page 9, lines 20 - 23:

10 Delete "A subsidiary corporation created under this section may be incorporated under
11 AS 10.20.146 - 10.20.166, or other law applicable to the incorporation of the subsidiary
12 corporation. Subject to the exceptions and"

13 Insert "Subject to the"

14

15 Page 9, line 25, following "[":

16 Insert "A SUBSIDIARY CORPORATION CREATED UNDER THIS SECTION
17 MAY BE INCORPORATED UNDER AS 10.20.146 - 10.20.166"

ADOPTED
3/14/14

28-GS2806R.4
Bullock
3/14/14

AMENDMENT #4

OFFERED IN THE SENATE

BY SENATOR KELLY

TO: CSSB 138(FIN), Draft Version "R"

- 1 Page 2, lines 5 - 7:
- 2 Delete all material.
- 3
- 4 Page 52, line 25, through page 53, line 8:
- 5 Delete all material.
- 6
- 7 Renumber the following bill sections accordingly.
- 8
- 9 Page 55, line 29:
- 10 Delete "54 - 61"
- 11 Insert "54 - 60"
- 12
- 13 Page 56, line 1:
- 14 Delete "secs. 62 and 63"
- 15 Insert "secs. 61 and 62"

FISCAL NOTE

STATE OF ALASKA
2014 LEGISLATIVE SESSION

Bill Version SB 138
Fiscal Note Number 4
(S) Publish Date 1/24/14

Identifier (file name) DOR-TAX-01-21-14 Dept. Affected Revenue
Title Commercial Production of North Slope Natural Gas Appropriation Taxation and Treasury
Allocation Tax Division
Sponsor Governor
Requester Rules by request of the Governor OMB Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

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

	FY15 Appropriation Requested	Included in Governor's FY15 Request	Out-Year Cost Estimates				
			FY16	FY17	FY18	FY19	FY20
OPERATING EXPENDITURES	FY15	FY15	FY16	FY17	FY18	FY19	FY20
Personal Services							
Travel							
Services	750.0						
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	750.0	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF	750.0					
1005	GF/Prgm (DGF)						
1007	I/A Rcpts (Other)						
1156	Rcpt Svcs (DGF)						
		750.0	0.0	0.0	0.0	0.0	0.0

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES	***	***	***	***	***	***	***

Estimated SUPPLEMENTAL (FY14) operating costs _____ (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY15) costs _____ (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended, or repealed? 12/31/2015 Discuss details in analysis section.

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial version.

Prepared by Matt Fonder, Director
Division Tax Division
Approved by Angela M. Rodell, Commissioner
Division Department of Revenue

Phone (907) 269-1033
Date/Time 01/14/2014 2:00 p.m.
Date 1/20/2014

FISCAL NOTE ANALYSIS #4

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 138

Analysis

Bill Language:

This bill would help the state to move forward as a partner in a large natural gas project, including liquefaction facilities. It gives the Commissioner of DNR, in consultation with the Commissioner of Revenue, the ability to take custody of gas delivered to the state and manage the disposition and sale of that gas. The main tax provision of the bill would allow gas producers to make an irrevocable election to pay their production tax liabilities with gas (tax as gas "TAG") instead of with money.

While the bill itself has numerous sections that affect other departments or corporations in the state, the analysis done for this fiscal note is limited to the tax provisions contained in the bill.

Revenues:

The department is unable to determine the amount of revenue that will be created by this bill in the future. Taxable gas production is not expected until after 2022, so no new revenues from a large gas project would be expected during the timeframe (through FY-20) of this fiscal note.

Expenditures:

The department is currently in the process of implementing its new Tax Revenue Management System (TRMS), for which the legislature appropriated approximately \$35 million for during the 2011 session. If this bill passes, we will need to amend the current contract with FAST Enterprises to allow for them to reconfigure TRMS to reflect these tax law changes. DOR estimates that it will incur an additional expense of approximately \$500,000 to reconfigure the system.

Regulations:

The department expects it will need to enter into expanded RSA's with the Department of Law to assist in drafting regulations to help the department implement the new law. DOR estimates that it will incur an additional expense of approximately \$250,000 to retain the necessary resources to assist with a regulations project of this magnitude.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB138-CS(RES)-DOR-TRS-03-04-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Governor

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Treasury Division
OMB Component Number: 121

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services					***	***	***	***
Travel								
Services	500.0		150.0					
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	500.0	0.0	150.0		***	***	***	***

Fund Source (Operating Only)

1004 Gen Fund	500.0		150.0					
Total	500.0	0.0	150.0		***	***	***	***

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Initial note to reflect resident option to invest.

Prepared By: Pam Leary, Director	Phone: (907)465-3751
Division: Treasury	Date: 03/04/2014 10:00 AM
Approved By: Mike Pawlowki, Deputy Commissioner	Date: 03/04/14
Agency: Revenue	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSSB 138

Analysis

This bill would help the state move forward as a partner in a large natural gas project, including liquefaction facilities. While the bill itself has numerous sections that affect other departments or corporation in the state, the analysis done for this fiscal note is limited to the provision in the bill that pertains to the development of a plan for residents to participate in the ownership of a north slope natural gas pipeline. The plan must include recommendations by the Commissioner of Revenue regarding :

- How individuals can qualify as a resident that can invest in the pipeline
- How a resident may invest in the pipeline
- The entity through which ownership should be acquired
- The notification process to residents acquiring ownership
- Ownership transferability
- If residents' ownership is via the State's interest in the pipeline, how income or dividends will be shared with resident owners
- If residents' ownership is via a publicly traded corporation that has an ownership interest in the pipeline, how those publicly traded corporations will be identified .

In order to develop the above recommendations , the department will require substantial subject matter expertise in order to come up with a plan at the time a contract is submitted. The department estimate that these contracted services will cost \$500,000 during FY15 and \$150,000 during FY16.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB138CS(FIN)-DCCED-AGDC-03-12-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: SFIN

Department: Department of Commerce, Community and
Economic Development
Appropriation: Alaska Gasline Development Corporation
Allocation: Alaska LNG Participation
OMB Component Number:

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015	Included in	Out-Year Cost Estimates				
	Appropriation	Governor's					
	Requested	FY2015					
		Request					
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services	1,394.0		1,394.0	1,394.0	***	***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	1,394.0	0.0	1,394.0	1,394.0	***	***	***

Fund Source (Operating Only)

1178 temp code	1,394.0		1,394.0	1,394.0			
Total	1,394.0	0.0	1,394.0	1,394.0	***	***	***

Positions

Full-time	6.0		6.0	6.0			
Part-time							
Temporary							

Change in Revenues

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Estimated SUPPLEMENTAL (FY2014) cost: 194,018.1 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? N
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

This revised fiscal note reflects the substantial changes made to the original legislation with regard to the Alaska Gasline Development Corporation (AGDC). The purpose of the Corporation has been significantly broadened to incorporate the State's participation in advancing an Alaska liquefied natural gas project (AKLNG). This increases AGDC's operational costs and requires the hiring of additional staff dedicated to this initiative. This fiscal note incorporates the capital costs associated with the State's participation in AKLNG pre-feed activities beginning in FY14 and running through FY17. These include the funds necessary to take a 25% equity interest in the LNG Facility, to purchase 40% of TransCanadas (TC) interest in the mid-stream, and the funds necessary to meet the terms of the MOU related to TCs investment return guarantees should their project involvement not continue through to FEED. Specific changes are detailed in the analysis section to follow.

Prepared By:	<u>Miles Baker, Director of Governmental Relations & External Affairs</u>	Phone:	<u>(907)330-6360</u>
Division:	<u>Alaska Gasline Development Corporation</u>	Date:	<u>03/12/2014 04:00 PM</u>
Approved By:	<u>Dan Fauske, President</u>	Date:	<u>03/12/14</u>
Agency:	<u>Alaska Gasline Development Corporation</u>		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSSB138(FIN)

Analysis

Activity Growth: This bill expands the purpose of the Alaska Gasline Development Corporation (AGDC) by authorizing it to participate in advancing an Alaska liquefied natural gas project (AKLNG) while continuing to advance the in-state natural gas pipeline project described in AS 31.25.005, commonly known as the Alaska Stand Alone Pipeline (ASAP). In its current form, the bill:

- Gives AGDC the primary responsibility for developing the AKLNG project on the state's behalf, to include developing infrastructure and services related to transportation, liquefaction, marine terminals, marketing and commercial support. Authorizes AGDC to acquire an ownership interest in the AKLNG project, including liquefaction facilities associated with that project.
- Directs AGDC to act in the State's best interest to deliver instate gas, and to provide both economic benefit and revenue to the State; and to assist DOR and DNR in maximizing the value of the State's royalty gas and gas delivered in lieu of taxes.
- Establishes a new Large-Diameter Natural Gas Pipeline Project Fund to fund AGDC's participation in the AKLNG project and restricts the use of those funds to AKLNG related work. Similarly, funds appropriated to the existing In-State Natural Gas Pipeline Fund (1229) would be restricted to work associated with the ASAP project.
- Directs the AGDC Board to hire a Program Manager for the AKLNG Project and to establish separations in operations, personnel and functions as may be necessary to firewall commercially sensitive and confidential information between the ASAP and AKLNG projects.

Allocation: A new allocation – *Alaska LNG Participation* – will be created to track AGDC expenditures related to advancing the AKLNG project.

Positions: AGDC will need to build in-house capacity to manage the Corporation's participation in this large-scale, multi-year initiative. It will be necessary to attract seasoned professionals capable of managing the negotiations, contacts and investments associated with this complex commercial partnership. To augment AGDC's existing management team a VP level position will be added to integrate the internal operations and processes across both project initiatives. Specific to the AKLNG initiative, in addition to the Program Manager mandated in this legislation, the team would include a Contract Compliance Officer, Senior Accountant and two Administrative Assistants for a total of 6 new fulltime positions:

- 1 – VP, \$410.0 annual burdened salary (\$250.0 + benefits)
- 1 – Program Manager, \$410.0 annual burdened salary (\$250.0 + benefits)
- 1 – Contract Compliance Officer, \$196.8 annual burdened salary (\$120.0 + benefits)
- 1 – Senior Accountant, \$164.0 annual burdened salary (\$100.0 + benefits)
- 2 – Administrative Assistant, each at \$106.6 annual burdened salary (\$65.0 + benefits)

Personal Services: The annual salary and benefit costs for the positions outlined above are estimated at \$1,394.0 for each of the next 3 fiscal years FY15-FY17. To maintain the momentum of current AKLNG negotiations, this legislation has an immediate effective date. It is anticipated that AGDC will begin recruiting staff immediately upon this legislation becoming law. Consequently, a supplemental FY14 Personal Services appropriation of \$232.3 is also being requested. Total Personal Services costs required to manage AGDC's participation in AKLNG through FY17 total \$4,414.4.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSSB138(FIN)

Analysis Continued

Other Project Related Expenditures: As required by AS 31.25.140, and to track the new positions associated with participation in the AKLNG project, AGDC's Personal Service costs have been detailed above. However, AGDC will incur a number of other costs related to the Corporation's participation in the first 3 years of AKLNG activities. AGDC intends to fund these expenditures by drawing as necessary from the new Large-Diameter Natural Gas Pipeline Project Fund. The fund will need to be capitalized at an amount sufficient to cover these additional costs which are anticipated to be incurred during the pre-feed activities through FY17. These additional costs are summarized below:

\$15,108.5 - Contractual Services: It's anticipated that 50+ commercial agreements will need to be executed over the next 18-36 months. AGDC will necessarily have to contract for subject matter expertise and outside counsel to support the AKLNG team's efforts in deal origination, negotiation and analysis. Focus areas include contract negotiations, midstream and liquefaction facility engineering analysis, interface engineering, commercial analysis, gas marketing and investment financing.

\$ 2,470.0 - Travel: Extensive and frequent travel expenses will be incurred by senior corporate staff, AKLNG Program Manager, commercial, marketing, engineering and legal teams.

\$ 988.2 - Lease: Additional office space will be necessary to accommodate new employees and contractor work areas.

\$ 582.6 - AGDC Board: Increased responsibilities and authority for the AGDC board will generate additional costs associated with travel, meetings and other related expenses.

\$ 230.0 - Capital Outlay: Communications equipment, IT and furnishings for expanded staff.

Capital Investment & Participation Expenditures:

The capital investment and participation expenditures associated with AGDC's participation in AKLNG pre-feed activities are detailed below. These activities would begin immediately upon enactment of this legislation and funds will begin to be drawn before the end of FY14. As with the other costs associated with this legislation, AGDC would pay for these expenses by drawing funds out of the new Large-Diameter Natural Gas Pipeline Project Fund. AGDC's financial participation in the AKLNG project can be grouped into two categories 1) State's equity participation and 2) State's guarantee of TransCanada's investment return.

\$100,100.0 - State Equity Participation: At 25% equity participation, AGDC's share of pre-feed LNG Facility technical costs are estimated at \$42.5 million. It's anticipated that an additional \$2.0 million will be required to cover AGDC's share of non-technical project costs that will also be allocated to each AKLNG partner. AGDC's cost to exercise the state's option to buy-out 40% of TransCanada's mid-stream interests is estimated at \$26.5 million. If exercised, TransCanada will be entitled to be reimbursed for all of TC's non-technical costs previously attributed to that 40%. Those are estimated at \$6.0 mill. Each of these estimates is based on the best information available at this time, consequently a 30% contingency has been added to each cost component for an additional \$23.1 million.

	Total	AGDC %	ADGC \$
LNG Facility Share	\$ 170,000.0	25%	\$ 42,500.0
LNG Non-Technical Share			\$ 2,000.0
TC 40% Option (=10% Tot Share)	\$ 265,000.0	10%	\$ 26,500.0
TC Option Reimbursement			\$ 6,000.0
	Subtotal		\$ 77,000.0
30% Contingency		30%	\$ 23,100.0
	Total		\$ 100,100.0

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. 0 _____

Analysis Continued

\$ 70,124.4 –TransCanada Investment Return Guarantee: If TransCanada doesn't progress to the FEED stage of the project for any reason other than their own voluntary withdrawal, the MOU between the State and TC requires the State to reimburse TC for the AKLNG project costs incurred since 1/01/2014, to include the pre-feed costs on their portion of the mid-stream, any non-technical cost allocations they've paid, plus a 7.1% return on that investment (AFUDC). These costs are estimated below based on the best information available at this time, consequently a 30% contingency has been added.

	Total	TC%	AGDC \$
TC Midstream Share	\$ 265,000.0	15.0%	\$ 39,750.0
TC Non-Tech & Other Development Costs			\$ 9,000.0
Total Invested			\$ 48,750.0
30% Contingency		30.0%	\$ 14,625.0
Subtotal			\$ 63,375.0
7.1% AGUDC		7.1%	\$ 6,749.4
Total			\$ 70,124.4

Fund Source: A new fund - *Large-Diameter Natural Gas Pipeline Project Fund* - is created in this legislation to fund expenditures related to the AKLNG project. This fund is to be capitalized through separate appropriation. The legislation authorizes AGDC to use money appropriated to the fund without further appropriation for purposes related to the AKLNG project. AGDC intends to institute procedures similar to those currently being used to track ASAP Project costs funded through the existing In-State Natural Gas Pipeline Fund (1229).

Supplemental: The supplemental request to capitalize the Large Diameter Natural Gas Pipeline Fund with \$194,018.1 UGF is informational only and requires a separate appropriation. Those costs are summarized in the table below. Once in the fund, money can be spent without further appropriation. Approximately \$11,188.2 would be used by AGDC during FY14 to fund operations and capital associated with the Corporations participation in AKLNG.

Summary of Fund Capitalization Requirements: The Large-Diameter Natural Gas Pipeline Fund will need to be capitalized through a separate appropriation at an amount sufficient to cover all costs, as detailed in this fiscal note, AGDC will incur during pre-feed activities through FY17. Those costs are summarized in the table below:

Large-Diameter Natural Gas Pipeline Project Fund Capitalization

	FY14 Supp	FY15	FY16	FY17	Total
AGDC Personal Services	\$ 232.3	\$ 1,394.0	\$ 1,394.0	\$ 1,394.0	\$ 4,414.4
Other AGDC Project Expenses					
Contractual Services	\$ 795.2	\$ 4,771.1	\$ 4,771.1	\$ 4,771.1	\$ 15,108.5
Travel	\$ 130.0	\$ 780.0	\$ 780.0	\$ 780.0	\$ 2,470.0
Lease	\$ -	\$ 329.4	\$ 329.4	\$ 329.4	\$ 988.2
AGDC Board	\$ 30.7	\$ 184.0	\$ 184.0	\$ 184.0	\$ 582.6
Capital Outlay	\$ -	\$ 230.0	\$ -	\$ -	\$ 230.0
State Equity Participation	\$ 10,000.0	\$ 60,000.0	\$ 25,000.0	\$ 5,100.0	\$ 100,100.0
State's Guarantee of TC	\$ -	\$ 70,124.4	\$ -	\$ -	\$ 70,124.4
	\$ 11,188.2	\$ 137,812.9	\$ 32,458.5	\$ 12,558.5	\$ 194,018.1

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB138CS(FIN)-FUND CAP- LDNGPF-03-12-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: SFIN

Department: Fund Capitalization
Appropriation: Caps Spent as Duplicated Funds
Allocation: Large Diameter Natural Gas Pipeline Fund
OMB Component Number:

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2015 Request	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015					
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

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Estimated SUPPLEMENTAL (FY2014) cost: 194,018.1 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

This revised fiscal note reflects the substantial changes made to the original legislation with regard to State's participation in advancing an Alaska liquefied natural gas project (AKLNG). This fiscal note incorporates the capital costs associated with the State's participation in AKLNG pre-feed activities beginning in FY14 and running through FY17. These include AGDC's increased operational costs associated with this initiative, the funds necessary to take a 25% equity interest in the LNG Facility, to purchase 40% of TransCanadas (TC) interest in the mid-stream, and the funds necessary to meet the terms of the MOU related to TCs investment return guarantees should their project involvement not continue through to FEED. Specific changes are detailed in the analysis section to follow. AKLNG costs separately identified by Dept of Revenue and Dept of Natural Resources are funded with UGF and therefore not included in this capitalization.

Prepared By:	<u>Miles Baker, Director of Governmental Relations & External Affairs</u>	Phone:	<u>(907)330-6360</u>
Division:	<u>Alaska Gasline Development Corporation</u>	Date:	<u>03/12/2014 09:00 AM</u>
Approved By:	<u>Dan Fauske, President</u>	Date:	<u>03/12/14</u>
Agency:	<u>Alaska Gasline Development Corporation</u>		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSSB138(FIN)

Analysis

The *Large-Diameter Natural Gas Pipeline Project Fund* is created in this legislation to fund expenditures related to the AKLNG project. This fund is to be capitalized through separate appropriation. The legislation authorizes AGDC to use money appropriated to the fund without further appropriation for purposes related to the AKLNG project. AGDC intends to institute procedures similar to those currently being used to track ASAP Project costs funded through the existing In-State Natural Gas Pipeline Fund (1229).

Supplemental: This fiscal note capitalizes the Large Diameter Natural Gas Pipeline Fund at \$194,018.1 UGF. The bill has an immediate effective date and thus requires a FY14 appropriation. The Fund will need to be at an amount sufficient to cover all costs, as summarized in the table below, which will be incurred during pre-feed activities through FY17. Once in the fund, money can be spent without further appropriation. Approximately \$11,188.2 would be used by AGDC during FY14 to fund operations and capital associated with the State's participation in AKLNG.

Large-Diameter Natural Gas Pipeline Project Fund Capitalization

	FY14 Supp	FY15	FY16	FY17	Total
AGDC Personal Services	\$ 232.3	\$ 1,394.0	\$ 1,394.0	\$ 1,394.0	\$ 4,414.4
Other AGDC Project Expenses					
<i>Contractual Services</i>	\$ 795.2	\$ 4,771.1	\$ 4,771.1	\$ 4,771.1	\$ 15,108.5
<i>Travel</i>	\$ 130.0	\$ 780.0	\$ 780.0	\$ 780.0	\$ 2,470.0
<i>Lease</i>	\$ -	\$ 329.4	\$ 329.4	\$ 329.4	\$ 988.2
<i>AGDC Board</i>	\$ 30.7	\$ 184.0	\$ 184.0	\$ 184.0	\$ 582.6
<i>Capital Outlay</i>	\$ -	\$ 230.0	\$ -	\$ -	\$ 230.0
State Equity Participation	\$ 10,000.0	\$ 60,000.0	\$ 25,000.0	\$ 5,100.0	\$ 100,100.0
State's Guarantee of TC	\$ -	\$ 70,124.4	\$ -	\$ -	\$ 70,124.4
	\$ 11,188.2	\$ 137,812.9	\$ 32,458.5	\$ 12,558.5	\$ 194,018.1

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB138CS(FIN)-DNR-NSG-3-12-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: Senate Finance

Department: Department of Natural Resources
Appropriation: Administration & Support Services
Allocation: North Slope Gas Commercialization
OMB Component Number:

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services	1,769.7		1,769.7	***	***	***	***	
Travel	102.0		102.0					
Services	7,090.0		7,090.0					
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	8,961.7	0.0	8,961.7	***	***	***	***	

Fund Source (Operating Only)

1004 Gen Fund	8,961.7		8,961.7				
Total	8,961.7	0.0	8,961.7	***	***	***	***

Positions

Full-time	6.0		6.0				
Part-time							
Temporary							

Change in Revenues							

Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
If yes, by what date are the regulations to be adopted, amended or repealed? 03/31/15

Why this fiscal note differs from previous version:

This fiscal note has been updated to reflect the committee substitute. However, no changes were made in the committee substitute that would affect the fiscal impact on the Department. This version corrects some typographical errors in the analysis section.

Prepared By: <u>Esther Tempel, Legislative Liaison</u>	Phone: <u>(907)465-4730</u>
Division: <u>Commissioner's Office</u>	Date: <u>03/12/2014 12:00 PM</u>
Approved By: <u>Joe Balash, Commissioner</u>	Date: <u>03/12/14</u>
Agency: <u>Department of Natural Resources</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSSB138(FIN)

Analysis

This bill establishes the framework for state participation in a large natural gas project by giving the Commissioner of the Department of Natural Resources (DNR) the authority to enter into upstream and downstream commercial agreements related to a North Slope natural gas project. It also gives the DNR Commissioner, in consultation with the Commissioner of Revenue, the authority to manage the project services and disposition and sale of tax-as-gas (TAG) gas from the Department of Revenue (DOR).

With passage of this bill, the DNR Commissioner, in consultation with the DOR commissioner, will enter into contractual agreements related to the state's equity position in the project. DNR's role is to make sure that the state's equity participation complements and facilitates the state's royalty and TAG gas marketing efforts. The contracts, equity arrangements, and gas sales agreements will be subject to legislative approval and will define the state's relationship with the parties and potential gas customers during the life of a North Slope natural gas project. Each contract, arrangement, and agreement will be conditioned on continued progress of a North Slope gas project and will establish how value will be shared among the parties and manage the state's exposure to commercial risks.

Most of these agreements will be negotiated during the 12–18 months following passage of this legislation so that the state and the other parties in the project can be in a position to commit to the Front-End Engineering Design (FEED) phase. This pre-FEED work will provide the state with the information necessary to make the investment decision to enter into FEED. Equity partners will spend more than a billion dollars during FEED.

With the rights and obligations defined in the agreements, DNR will be able to structure its royalty and TAG gas marketing efforts. The marketing organization may include the potential utilization of a marketing subsidiary of AGDC or may leverage the Producers' marketing organizations and expertise, per Article 8.3 of the Heads of Agreement (HOA), resulting in a smaller state organization than might otherwise be required.

The DNR commissioner will need the support, expertise, and involvement of a variety of experts to inform the state's decisions, including:

- When the state takes its royalty and TAG gas, it will become more aligned with the North Slope gas producers than has ever been the case historically. DNR will enter into production offtake agreements and gas balancing agreements. The DNR Commissioner may modify the state's oil and gas lease terms, including modification of the lease royalty rates not less than 12.5%, treatment of lease net profit share provisions, field costs, and the state's rights to take royalty gas in-value.
- The DNR commissioner will enter agreements to define gas treatment costs, transportation tolls/tariffs, and liquefaction services. These agreements will also be designed to manage capacity and arrange for expansion of the project, if needed, and must accommodate changes in equity ownership. DNR will forge contractual arrangements with the producers and other industry parties participating in the project as well as state entities who may be part of the project initially or who may take over ownership later.
- The marketing of the state's gas will depend on the rights and obligations that will be defined in the agreements. As time progresses, DNR must make decisions about how it will supply royalty and TAG gas to the domestic and international markets. Gas supply agreements are likely to be long-term and may include mechanisms to attract additional investment capital into the project. Planning and design of the marketing organization will occur during the pre-FEED phase.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSSB138(FIN)

Analysis Continued

Allocation: DNR will create a separate allocation code for expenditures related to the commercial production of North Slope natural gas for ease of tracking appropriations.

Expenditures: DNR will create in-house capacity to provide the administration with consistent and well-informed advice throughout the initial negotiations and to manage experts as needed through this process. This team will provide consistent support throughout the pre-FEED phase and will be in place to manage the marketing role. Establishing this capacity now and preserving it as the project develops is essential to facilitate the state's effective participation in the project.

The team will be involved in negotiating, crafting agreements, managing expert consultants at each of the project phases, monitoring the agreements as the project progresses and conditions are met or changed, and preserving and protecting confidential information provided by the state's counterparties.

This team will include a lead expert analyst; four subject matter experts specializing in commercial aspects of upstream, gas treatment and pipeline transportation, liquefaction, and international marketing; and a project assistant responsible for contract management, recordkeeping and administrative support, as follows:

- 1 Lead Expert Analyst (exempt)- \$349.8 annual salary and benefits
- 4 Subject Matter Expert Analysts (exempt) - \$323.7 annual salary and benefits each (total of \$1,294.8)
- 1 Project Assistant (range 20) - \$125.1 annual salary and benefits

Total Personal Services: \$1,769.7

It is anticipated that the lead expert analyst and four subject matter expert analysts will need to make trips to Asia to conduct market research and outreach. DNR estimates that each will make quarterly trips at an estimated cost of \$5.1 per trip. **Total Travel Expenses: \$102.0**

Contract services include:

- \$4,000.0 for substantial subject matter expertise to support the DNR commissioner and team including deal origination, deal analysis, market monitoring, infrastructure analysis, commercial contracting, financial and credit analysis, risk control and analysis, and imbalance reconciliation
- Reimbursable Service Agreements to the Department of Law: \$3,000.0 for legal advice from outside counsel on commercial and financial agreements, transactional negotiations and agreements, federal jurisdictional, statutory and regulatory issues and in-house attorney services (\$250.0 per month)
- DOA core service charges, lease space, and office supplies: \$15.0 per position (\$90.0 for 6 positions)

Total Contract Services: \$7,090.0

It is anticipated that the decision to proceed into FEED will take place by the end of FY16. Impacts in FY17 and beyond are indeterminate at this time; however, pre-FEED will help determine the potential costs leading up to the FEED phase. +

Revenues: No new revenues from a large gas project would be expected during the timeframe (through FY20) of this fiscal note. Revenues from a North Slope gas project could be realized as soon as FY22.

Regulations: DNR expects it will need to amend its regulations as they pertain to the disposition of royalty oil and gas to include TAG gas.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB138CS(FIN)-DCCED-AEA-03-12-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: SFIN

Department: Department of Commerce, Community and
Economic Development
Appropriation: Alaska Energy Authority
Allocation: Statewide Project Development, Alternative
Energy and Efficiency
OMB Component Number: 2888

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 1,375.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable, initial version.

Prepared By: <u>Sara Fisher-Goad, Executive Director</u>	Phone: <u>(907)771-3000</u>
Division: <u>Alaska Energy Authority</u>	Date: <u>03/12/2014 12:00 AM</u>
Approved By: <u>Jeanne Mungle, Director</u>	Date: <u>03/12/14</u>
Agency: <u>Administrative Services</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSSB138

Analysis

CSSB138 would require the Alaska Energy Authority (AEA) to plan and make a recommendation to the legislature on infrastructure needed to deliver affordable energy to areas in the state that do not have direct access to a north slope natural gas pipeline. Specifically, the bill requires AEA to do the following:

- a) In consultation with the Alaska Gasline Development Corporation, AIDEA and the Department of Revenue,
 - 1) Develop a plan for developing infrastructure to deliver more affordable energy to areas of the state that are not expected to have direct access to a North Slope natural gas pipeline; Identify ownership options, different energy sources, including fossil fuels, hydro projects, tidal, and other alternative energy sources; 2) Describe and recommend the means for generating, delivering, receiving, and storing energy in the most cost-efficient manner; and 3) AEA may consider the development of regional energy systems that can receive and store bulk fuel in quantity and distribute that fuel as needed within the region.
- b) In consultation with the Department of Revenue, AEA shall recommend a plan for funding the design, development, and construction of the required infrastructure, and may identify a source of rent, royalty, income, or tax received by the state that may be appropriated by the legislature to implement the plan.
- c) AEA shall provide the plan and suggested legislation for the design, development, construction, and financing of the required infrastructure to the legislature before January 1, 2017.

AEA expects to contract for the technical expertise required to complete the plan and funding recommendations. We estimate \$1,375.0 in contractual costs, funded by a capital appropriation to AEA. This estimate is based on the following:

The ongoing effort of the AEA to collaborate with regional stakeholders in the development of regional energy plans is on track to generate the baseline information requested in Sec. 61 (a) of CSSB138 version Y. This effort has been driven by previous policy direction, established through legislation and budgetary appropriations, to evaluate and develop local fossil fuels, renewable and alternative energy sources to support regional energy needs. The activity is scheduled to conclude in 2015 using funds in the administration's proposed FY2015 budget. However, the possibility of bulk LNG being available from an Alaska Gasline LNG plant will require reassessment of potentially relevant energy projects, funding approaches and innovations in infrastructure ownership at the local and regional level. Refining the existing analysis is estimated to cost \$150.0. Evaluating opportunities for increased electricity transmission along with more aggressive use of local energy sources for heat compared to LNG delivery is estimated at \$600.0. Costing of LNG logistics and assessment of powerhouse conversions are anticipated to be \$500.0.

Sec. 61 (b) requires AEA to collaborate with the Dept. of Revenue to evaluate sources of state revenue that could be used to fund development and construction of infrastructure to implement the regional energy plan for geographic areas of the state that will not have direct access to natural gas off a North Slope natural gas pipeline. The work will entail working with consultants to quantify future revenue streams, estimate project costs including possible "stranded infrastructure" and to assess the expected rate of conversion if a new energy source can be delivered. Using existing data available from AHFC's Energy Rebate and Home Weatherization program, as well as other state sources should limit this expense to \$100.0.

Sec. 61 (c) entails the compilation and production of generated materials into a comprehensive report for delivery to the legislature prior to January 1, 2017. Due to expected size and complexity of the document, \$25.0 is requested.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB138CS(FIN)-FUND CAP- LDNGPF-03-13-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: SFIN

Department: Fund Capitalization
Appropriation: Caps Spent as Duplicated Funds
Allocation: Large Diameter Natural Gas Pipeline Fund
OMB Component Number:

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (FY2014) cost: 66,726.7 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

This revised fiscal note reflects the changes made to the original legislation with regard to State's participation in advancing an Alaska liquefied natural gas project (AKLNG). This fiscal note incorporates the capital costs associated with AGDC's participation in AKLNG pre-feed activities beginning in FY14 and running through FY15. These include AGDC's increased operational costs associated with this initiative and the funds necessary to take a 25% equity interest in the LNG Facility. Costs associated with FY16 and FY17 activities are not being requested at this time. Funding categories and amounts are detailed in the analysis section to follow. AKLNG costs separately identified by either the Dept. of Revenue, the Dept. of Natural Resources or the Alaska Energy Authority are not included in this fund capitalization.

Prepared By: Miles Baker, Director of Governmental Relations & External Affairs Phone: (907)330-6360
Division: Alaska Gasline Development Corporation Date: 03/13/2014 10:00 PM
Approved By: Dan Fauske, President Date: 03/13/14
Agency: Alaska Gasline Development Corporation

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSSB138(FIN)

Analysis

The legislation gives AGDC the primary responsibility for developing the AKLNG project on the state's behalf, to include developing infrastructure and services related to transportation, liquefaction, marine terminals, marketing and commercial support. It also authorizes AGDC to acquire an ownership interest in the AKLNG project, including liquefaction facilities associated with the project. To maintain the momentum of current AKLNG negotiations, this legislation has an immediate effective date. AGDC's activities would accelerate immediately upon enactment of this legislation and funds will begin to be drawn before the end of FY14.

The *Large-Diameter Natural Gas Pipeline Project Fund* is created in this legislation to fund expenditures related to the AKLNG project. AGDC is requesting a FY14 supplemental appropriation of \$66,726.7 UGF to initially capitalize the Fund. This is the minimum amount necessary to fund the Corporation's FY14 and FY15 AKLNG pre-feed activities. Once appropriated into the fund, the legislation authorizes AGDC to spend money on AKLNG related expenditures as they occur without further appropriation. Approximately \$11,188.2 of this initial funding will be drawn down in FY14 and \$55,538.5 in FY15. AGDC intends to institute procedures similar to those currently being used to track ASAP Project expenditures that are funded through the existing In-State Natural Gas Pipeline Fund (1229).

This appropriate request does not include the amount necessary to purchase 40% of TransCanada's (TC) mid-stream interest or the funds necessary to satisfy the State's obligation, per the MOU, to reimburse TC for its AKLNG investments and to provide a 7.1% return guarantee (AFUDC) should their involvement in the project not continue through to FEED.

The timing of AGDC's expenditures related to advancing the Alaska liquefied natural gas pipeline project are summarized in the table below:

AGDC AKLNG Pre-Feed Expenditures

	FY14 Supp	FY15	FY16	FY17	Total
Personal Services	\$ 232.3	\$ 1,394.0	\$ 1,394.0	\$ 1,394.0	\$ 4,414.4
Other Project Expenses					
<i>Contractual Services</i>	\$ 795.2	\$ 4,771.1	\$ 4,771.1	\$ 4,771.1	\$ 15,108.5
<i>Travel</i>	\$ 130.0	\$ 780.0	\$ 780.0	\$ 780.0	\$ 2,470.0
<i>Lease</i>	\$ -	\$ 329.4	\$ 329.4	\$ 329.4	\$ 988.2
<i>AGDC Board</i>	\$ 30.7	\$ 184.0	\$ 184.0	\$ 184.0	\$ 582.6
<i>Capital Outlay</i>	\$ -	\$ 230.0	\$ -	\$ -	\$ 230.0
State Equity Participation	\$ 10,000.0	\$ 47,850.0	\$ -	\$ -	\$ 57,850.0
State 40% Option on TC	\$ -	\$ -	\$ 42,250.0	\$ -	\$ 42,250.0
State's Guarantee of TC	\$ -	\$ -	\$ 70,124.4	\$ -	\$ 70,124.4
	\$ 11,188.2	\$ 55,538.5	\$ 119,832.9	\$ 7,458.5	\$ 194,018.1

This request is for FY14 and FY15 costs only. A future appropriation of \$127,291.5 will be required to fund AGDC's continued participation in pre-feed for FY16 and FY17, to exercise the State's 40% mid-stream option (approx. \$42,250.0) and to reimbursement TC in the event of their exiting the deal (approx. \$70,124.4).

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 138
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB138CS(FIN)-DCCED-AGDC-03-13-14
Title: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX
Sponsor: RLS BY REQUEST OF THE GOVERNOR
Requester: SFIN

Department: Department of Commerce, Community and
Economic Development
Appropriation: Alaska Gasline Development Corporation
Allocation: Alaska LNG Participation
OMB Component Number:

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services	1,394.0		1,394.0	1,394.0	***	***	***	***
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	1,394.0	0.0	1,394.0	1,394.0	***	***	***	***

Fund Source (Operating Only)

1178 temp code	1,394.0		1,394.0	1,394.0				
Total	1,394.0	0.0	1,394.0	1,394.0	***	***	***	***

Positions

Full-time	6.0		6.0	6.0				
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (FY2014) cost: 66,726.7 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? N
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

This revised fiscal note reflects the changes made to the original legislation with regard to the AGDC. The Corporation's purpose has been significantly broadened to incorporate the State's participation in advancing an Alaska liquefied natural gas project (AKLNG). This increases AGDC's operational costs and requires hiring additional staff dedicated to this initiative. This note outlines the capital costs associated with the State's participation in pre-feed activities beginning in FY14 and running through FY17. These include the funds necessary to take a 25% equity interest in the LNG Facility, to purchase 40% of TransCanadas (TC) mid-stream interest, and the funds necessary to meet the terms of the MOU related to TCs investment return guarantees should their project involvement not continue through to FEED. Specific changes are detailed in the analysis section to follow. This session, AGDC is only requesting the funds necessary to cover FY14 & FY15 expenses.

Prepared By: <u>Miles Baker, Director of Governmental Relations & External Affairs</u>	Phone: (907)330-6360
Division: <u>Alaska Gasline Development Corporation</u>	Date: 03/13/2014 09:00 PM
Approved By: <u>Dan Fauske, President</u>	Date: 03/13/14
Agency: <u>Alaska Gasline Development Corporation</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSSB138(FIN)

Analysis

Activity Growth: This bill expands the purpose of the Alaska Gasline Development Corporation (AGDC) by authorizing it to participate in advancing an Alaska liquefied natural gas project (AKLNG) while continuing to advance the in-state natural gas pipeline project described in AS 31.25.005, commonly known as the Alaska Stand Alone Pipeline (ASAP). In its current form, the bill:

- Gives AGDC the primary responsibility for developing the AKLNG project on the state's behalf, to include developing infrastructure and services related to transportation, liquefaction, marine terminals, marketing and commercial support. Authorizes AGDC to acquire an ownership interest in the AKLNG project, including liquefaction facilities associated with that project.
- Directs AGDC to act in the State's best interest to deliver instate gas, and to provide both economic benefit and revenue to the State; and to assist DOR and DNR in maximizing the value of the State's royalty gas and gas delivered in lieu of taxes.
- Establishes a new Large-Diameter Natural Gas Pipeline Project Fund to fund AGDC's participation in the AKLNG project and restricts the use of those funds to AKLNG related work. Similarly, funds appropriated to the existing In-State Natural Gas Pipeline Fund (1229) would be restricted to work associated with the ASAP project.
- Directs the AGDC Board to hire a Program Manager for the AKLNG Project and to establish separations in operations, personnel and functions as may be necessary to firewall commercially sensitive and confidential information between the ASAP and AKLNG projects.

Allocation: A new allocation – *Alaska LNG Participation* – will be created to track AGDC expenditures related to advancing the AKLNG project.

Positions: AGDC will need to build in-house capacity to manage the Corporation's participation in this large-scale, multi-year initiative. It will be necessary to attract seasoned professionals capable of managing the negotiations, contacts and investments associated with this complex commercial partnership. To augment AGDC's existing management team a VP level position will be added to integrate the internal operations and processes across both project initiatives. Specific to the AKLNG initiative, in addition to the Program Manager mandated in this legislation, the team would include a Contract Compliance Officer, Senior Accountant and two Administrative Assistants for a total of 6 new fulltime positions:

- 1 – VP, \$410.0 annual burdened salary (\$250.0 + benefits)
- 1 – Program Manager, \$410.0 annual burdened salary (\$250.0 + benefits)
- 1 – Contract Compliance Officer, \$196.8 annual burdened salary (\$120.0 + benefits)
- 1 – Senior Accountant, \$164.0 annual burdened salary (\$100.0 + benefits)
- 2 – Administrative Assistant, each at \$106.6 annual burdened salary (\$65.0 + benefits)

Personal Services: The annual salary and benefit costs for the positions outlined above are estimated at \$1,394.0 for each of the next 3 fiscal years FY15-FY17. To maintain the momentum of current AKLNG negotiations, this legislation has an immediate effective date. It is anticipated that AGDC will begin recruiting staff immediately upon this legislation becoming law. Consequently, in addition to \$1,394.0 for FY15, an supplemental appropriation of \$232.3 is also being requested for FY14. Personal Services costs required to manage the Corporation's AKLNG participation through FY17 will total \$4,414.4.

Other Project Related Expenditures: As required by AS 31.25.140, and to track the new positions associated with participation in the AKLNG project, AGDC's Personal Service costs have been detailed above. However, AGDC will incur a number of other costs related to the Corporation's participation in the first 3 years of AKLNG activities. AGDC intends to fund these expenditures by drawing as necessary from the new Large-Diameter Natural Gas Pipeline Project Fund. The cost estimates through FY17 are summarized by category on the following page.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSSB138(FIN)

Analysis Continued

\$15,108.5 - Contractual Services: It's anticipated that 50+ commercial agreements will need to be executed over the next 18-36 months. AGDC will necessarily have to contract for subject matter expertise and outside counsel to support the AKLNG team's efforts in deal origination, negotiation and analysis. Focus areas include contract negotiations, midstream and liquefaction facility engineering analysis, interface engineering, commercial analysis, gas marketing and investment financing.

\$ 2,470.0 – Travel: Extensive and frequent travel expenses will be incurred by senior corporate staff, AKLNG Program Manager, commercial, marketing, engineering and legal teams.

\$ 988.2 – Lease: Additional office space will be necessary to accommodate new employees and contractor work areas.

\$ 582.6 – AGDC Board: Increased responsibilities and authority for the AGDC board will generate additional costs associated with travel, meetings and other related expenses.

\$ 230.0 – Capital Outlay: Communications equipment, IT and furnishings for expanded staff.

Capital Investment & Participation Expenditures: The capital investment and participation expenditures associated with AGDC's AKLNG pre-feed activities are detailed below. These activities would begin immediately upon enactment of this legislation and funds will begin to be drawn before the end of FY14. As with the other costs associated with this legislation, AGDC would pay for these expenses by drawing funds out of the new Large-Diameter Natural Gas Pipeline Project Fund. AGDC's financial participation in the AKLNG project can be grouped into three major categories 1) State's equity participation, 2) State's 40% option on TransCanada mid-stream and 3) State's guarantee of TransCanada's investment return.

\$ 57,850.0 - State's Equity Participation: At 25% equity participation, AGDC's share of pre-feed LNG Facility technical costs are estimated at \$42.5 million. It's anticipated that an additional \$2.0 million will be required to cover AGDC's share of non-technical project costs that will also be allocated to each AKLNG partner. These estimates are based on the information available at this time, consequently a 30% contingency of \$13.35 million has been added.

	Total	AGDC %	ADGC \$
LNG Facility Share	\$ 170,000.0	25%	\$ 42,500.0
LNG Non-Technical Share			\$ 2,000.0
	Subtotal		\$ 44,500.0
30% Contingency		30%	\$ 13,350.0
	Total		\$ 57,850.0

\$ 42,250.0 - State's 40% Option on TC Mid-stream: AGDC's cost to exercise the state's option to buy-out 40% of TransCanada's mid-stream interests is estimated at \$26.5 million. If exercised, TransCanada will be entitled to be reimbursed for all of its non-technical costs previously attributed to that 40%. Those are estimated at \$6.0 million. These are estimate based on the information available at this time, consequently a 30% contingency of \$9.8 million has been added. This option is not likely to be exercised before FY16 and is therefore not included in this year's appropriation request.

	Total	AGDC %	ADGC \$
TC 40% Option (=10% Tot Sha	\$ 265,000.0	10%	\$ 26,500.0
TC's Cost Reimbursement			\$ 6,000.0
	Subtotal		\$ 32,500.0
30% Contingency		30%	\$ 9,750.0
	Total		\$ 42,250.0

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. 0 _____

Analysis Continued

§ 70.124.4 –TransCanada Investment Return Guarantee: If TransCanada doesn't progress to the FEED stage of the project for any reason other than their own voluntary withdrawal, the MOU between the State and TC requires the State to reimburse TC for the AKLNG project costs incurred since 1/01/2014, to include the pre-feed costs on their portion of the mid-stream, any non-technical cost allocations they've paid, plus a 7.1% return on that investment (AFUDC). These costs are estimated below based on the best information available at this time, consequently a 30% contingency has been added. If required, these reimbursements and return guarantees are not anticipated to occur before FY16 and are therefore not included in this year's appropriation request.

	Total	TC%	AGDC \$
TC Midstream Share	\$ 265,000.0	15.0%	\$ 39,750.0
TC Non-Tech & Other Development Costs			\$ 9,000.0
	Total Invested		\$ 48,750.0
30% Contingency		30.0%	\$ 14,625.0
	Subtotal		\$ 63,375.0
7.1% AGUDC		7.1%	\$ 6,749.4
	Total		\$ 70,124.4

AKLNG Expenditure Summary: It is anticipated that AGDC will need a total of \$194,018.1 to cover it's AKLNG related expenditures through FY17. The timing of those expenditures is summarized in the table below:

AGDC AKLNG Pre-Feed Expenditures

	FY14 Supp	FY15	FY16	FY17	Total
Personal Services	\$ 232.3	\$ 1,394.0	\$ 1,394.0	\$ 1,394.0	\$ 4,414.4
Other Project Expenses					
Contractual Services	\$ 795.2	\$ 4,771.1	\$ 4,771.1	\$ 4,771.1	\$ 15,108.5
Travel	\$ 130.0	\$ 780.0	\$ 780.0	\$ 780.0	\$ 2,470.0
Lease	\$ -	\$ 329.4	\$ 329.4	\$ 329.4	\$ 988.2
AGDC Board	\$ 30.7	\$ 184.0	\$ 184.0	\$ 184.0	\$ 582.6
Capital Outlay	\$ -	\$ 230.0	\$ -	\$ -	\$ 230.0
State Equity Participation	\$ 10,000.0	\$ 47,850.0	\$ -	\$ -	\$ 57,850.0
State 40% Option on TC	\$ -	\$ -	\$ 42,250.0	\$ -	\$ 42,250.0
State's Guarantee of TC	\$ -	\$ -	\$ 70,124.4	\$ -	\$ 70,124.4
	\$ 11,188.2	\$ 55,538.5	\$ 119,832.9	\$ 7,458.5	\$ 194,018.1

Fund Source: A new fund - *Large-Diameter Natural Gas Pipeline Project Fund* - is created in this legislation to fund expenditures related to the AKLNG project. The fund will need to be capitalized through a separate appropriation at an amount sufficient to cover AGDC's costs as detailed elsewhere in this note. Once in the fund, the legislation authorizes AGDC to spend the money on AKLNG related activities without further appropriation. AGDC intends to institute procedures similar to those currently being used to track ASAP Project expenditures that are funded through the existing In-State Natural Gas Pipeline Fund (1229).

Supplemental Request: Through a separate fiscal note, AGDC is requesting a FY14 supplemental appropriation of \$66,726.7 UGF to initially capitalize the Large Diameter Natural Gas Pipeline Fund. This is the minimum amount necessary to fund the Corporation's FY14 and FY15 AKLNG pre-feed activities. Approximately \$11,188.2 of that will be drawn down in FY14 and \$55,538.5 in FY15. A future appropriation of \$127,291.5 will be required to fund AGDC's continued participation in pre-feed for FY16 and FY17, to exercise the State's 40% mid-stream option and to reimbursement TC in the event of their

ADOPTED

28-GS2806\R
Bullock
3/12/14

3/14/14

11:15am.

CS FOR SENATE BILL NO. 138(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the purposes, powers, and duties of the Alaska Gasline Development
2 Corporation; relating to an in-state natural gas pipeline, an Alaska liquefied natural gas
3 project, and associated funds; requiring state agencies and other entities to expedite
4 reviews and actions related to natural gas pipelines and projects; relating to the
5 authorities and duties of the commissioner of natural resources relating to a North Slope
6 natural gas project, oil and gas and gas only leases, and royalty gas and other gas
7 received by the state including gas received as payment for the production tax on gas;
8 relating to the tax on oil and gas production, on oil production, and on gas production;
9 relating to the duties of the commissioner of revenue relating to a North Slope natural
10 gas project and gas received as payment for tax; relating to confidential information
11 and public record status of information provided to or in the custody of the Department
12 of Natural Resources and the Department of Revenue; relating to apportionment factors

1 of the Alaska Net Income Tax Act; amending the definition of gross value at the 'point of
2 production' for gas for purposes of the oil and gas production tax; clarifying that the
3 exploration incentive credit, the oil or gas producer education credit, and the film
4 production tax credit may not be taken against the gas production tax paid in gas;
5 relating to a restriction on employment after leaving state service for a public officer
6 who negotiates a contract for a North Slope natural gas project or develops terms for
7 inclusion in a proposed contract associated with a North Slope natural gas project;
8 requesting the governor to establish an interim advisory board to advise the governor on
9 municipal involvement in a North Slope natural gas project; relating to the development
10 of a plan by the Alaska Energy Authority for developing infrastructure to deliver
11 affordable energy to areas of the state that will not have direct access to a North Slope
12 natural gas pipeline and a recommendation of a funding source for energy
13 infrastructure development; requiring the commissioner of revenue to develop a plan
14 and suggest legislation for municipalities, regional corporations, and residents of the
15 state to acquire ownership interests in a North Slope natural gas pipeline project;
16 making conforming amendments; and providing for an effective date."

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

18 * **Section 1.** AS 31.25.005 is amended to read:

19 **Sec. 31.25.005. Purpose.** The corporation shall, for the benefit of the state, to
20 the fullest extent possible,

21 (1) develop and have primary responsibility for developing natural
22 gas pipelines, an Alaska liquefied natural gas project, and other transportation
23 mechanisms to deliver natural gas in-state for the maximum benefit of the people
24 of the state;

25 (2) when developing natural gas pipelines, an Alaska liquefied

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natural gas project, and other transportation mechanisms to deliver natural gas in-state, provide economic benefits in the state, and revenue to the state;

(3) assist the Department of Natural Resources and the Department of Revenue to maximize the value of the state's royalty natural gas, natural gas delivered to the state as payment of tax, and other natural gas received by the state;

(4) advance an in-state natural gas pipeline as described in the July 1, 2011, project plan prepared under former AS 38.34.040 by the corporation while a subsidiary of the Alaska Housing Finance Corporation, with modifications determined by the corporation to be appropriate to develop, finance, construct, and operate an in-state natural gas pipeline in a safe, prudent, economical, and efficient manner, for the purpose of making natural gas, including propane and other hydrocarbons associated with natural gas other than oil, available to Fairbanks, the Southcentral region of the state, and other communities in the state at the lowest rates possible;

(5) advance an Alaska liquefied natural gas project by developing infrastructure and providing related services, including services related to transportation, liquefaction, a marine terminal, marketing, and commercial support; if the corporation provides a service under this paragraph to the state, a public corporation or instrumentality of the state, a political subdivision of the state, or another entity of the state, the corporation may not charge a fee for the service in an amount greater than the amount necessary to reimburse the corporation for the cost of the service;

(6) [(2)] endeavor to develop natural gas pipelines and other transportation mechanisms to deliver natural gas, including propane and other hydrocarbons associated with natural gas other than oil, to public utility and industrial customers in areas of the state to which the natural gas, including propane and other hydrocarbons associated with natural gas other than oil, may be delivered at commercially reasonable rates; and

(7) [(3)] endeavor to develop natural gas pipelines and other transportation mechanisms that offer commercially reasonable rates for shippers and access for shippers who produce natural gas, including propane and other

1 hydrocarbons associated with natural gas other than oil, in the state.

2 * **Sec. 2.** AS 31.25.010 is amended to read:

3 **Sec. 31.25.010. Structure.** The Alaska Gasline Development Corporation is a
 4 public corporation and government instrumentality acting in the best interest of the
 5 state for the purposes required by AS 31.25.005, located for administrative
 6 purposes in the Department of Commerce, Community, and Economic Development,
 7 but having a legal existence independent of and separate from the state. The
 8 corporation may not be terminated as long as it has bonds, notes, or other obligations
 9 outstanding. The corporation may dissolve when no bonds, notes, or other obligations
 10 of the corporation or a subsidiary of the corporation are outstanding and the
 11 corporation or a subsidiary of the corporation is no longer engaged in the
 12 development, financing, construction, or operation of an in-state natural gas pipeline
 13 or an Alaska liquefied natural gas project. Upon termination of the corporation, its
 14 rights and property pass to the state.

15 * **Sec. 3.** AS 31.25.040 is amended by adding new subsections to read:

16 (c) To the maximum extent practicable, the board shall
 17 (1) maximize the efficient use of state resources; and
 18 (2) establish appropriate separation within the corporation by
 19 separating personnel and functions, and by other means to the extent that separation
 20 may be required by contract or applicable law for the purpose of screening and
 21 preventing the exchange of commercially sensitive information when developing an
 22 in-state natural gas pipeline, an Alaska liquefied natural gas project, and other
 23 transportation mechanisms to deliver natural gas in the state.

24 (d) The board shall appoint a program director for an Alaska liquefied natural
 25 gas project. The program director appointed under this section shall

26 (1) serve at the pleasure of the board; and
 27 (2) report to the board and the executive director of the corporation.

28 * **Sec. 4.** AS 31.25.080(a) is amended to read:

29 (a) In addition to other powers granted in this chapter, the corporation may
 30 (1) determine the form of ownership and the operating structure of an
 31 in-state natural gas pipeline developed by the corporation and may enter into

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agreements with other persons for joint ownership, joint operation, or both of an in-state natural gas pipeline or an Alaska liquefied natural gas project;

(2) plan, finance, construct, develop, acquire, maintain, and operate a pipeline system and other transportation mechanism, including pipelines, compressors, storage facilities, and other related facilities, equipment, and works of public improvement, in the state to facilitate production, transportation, and delivery of natural gas or other related natural resources to the point of consumption or to the point of distribution for consumption;

(3) lease or rent facilities, structures, and properties;

(4) exercise the power of eminent domain and file a declaration of taking under AS 09.55.240 - 09.55.460 to acquire land or an interest in land that is necessary for an in-state natural gas pipeline or an Alaska liquefied natural gas project; the exercise of powers by the corporation under this paragraph may not exceed the permissible exercise of the powers by the state;

(5) acquire, by purchase, lease, or gift, land, structures, real or personal property, an interest in property, a right-of-way, a franchise, an easement, or other interest in land, or an interest in or right to capacity in a pipeline system determined to be necessary or convenient for the development, financing, construction, or operation of an in-state natural gas pipeline project or an Alaska liquefied natural gas project or part of an in-state natural gas pipeline project or an Alaska liquefied natural gas project;

(6) transfer or otherwise dispose of all or part of an in-state natural gas pipeline project, an Alaska liquefied natural gas project, or [DEVELOPED BY THE CORPORATION OR TRANSFER OR OTHERWISE DISPOSE OF] an interest in an asset of the corporation;

(7) elect to provide transportation of natural gas as a contract carrier, common carrier, or otherwise;

(8) provide light, water, security, and other services for property of the corporation;

(9) conduct hearings to gather and develop data consistent with the purpose and powers of the corporation;

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(10) advocate for new pipeline capacity before the Federal Energy Regulatory Commission;

(11) make and execute agreements, contracts, and other instruments necessary or convenient in the exercise of the powers and functions of the corporation under this chapter, including a contract with a person, firm, corporation, governmental agency, or other entity;

(12) sue and be sued in its own name;

(13) adopt an official seal;

(14) adopt bylaws for the regulation of its affairs and the conduct of its business and adopt regulations and policies in connection with the performance of its functions and duties;

(15) employ fiscal consultants, engineers, attorneys, appraisers, and other consultants and employees that may, in the judgment of the corporation, be required and fix and pay their compensation from funds available to the corporation;

(16) procure insurance against a loss in connection with its operation;

(17) borrow money as provided in this chapter to carry out its corporate purposes and issue its obligations as evidence of borrowing;

(18) include in a borrowing the amounts necessary to pay financing charges, to pay interest on the obligations, and to pay the interest, consultant, advisory, and legal fees, and other expenses that are necessary or incident to the borrowing;

(19) receive, administer, and comply with the conditions and requirements of an appropriation, gift, grant, or donation of property or money;

(20) do all acts and things necessary, convenient, or desirable to carry out the powers expressly granted or necessarily implied in this chapter;

(21) invest or reinvest, subject to its contracts with noteholders and bondholders, money or funds held by the corporation, including funds in the in-state natural gas pipeline fund (AS 31.25.100) **and the Alaska liquefied natural gas project fund (AS 31.25.110)**, in obligations or other securities or investments in which banks or trust companies in the state may legally invest funds held in reserves or sinking funds or funds not required for immediate disbursement, and in certificates of deposit or time deposits secured by obligations of, or guaranteed by, the state or the

1 United States;

2 (22) enter into, as it determines to be necessary or appropriate, any
3 swap or hedge, cap, or other contract providing for payments based on levels of or
4 changes in interest rates or indices or in the cost or price of any commodity, supply, or
5 expense expected to be used or incurred in connection with the acquisition,
6 construction, or operation of any facility or property owned, leased, or operated by the
7 corporation, or an option with respect to any of the foregoing;

8 **(23) except as provided in (g) of this section, acquire an ownership**
9 **or participation interest in an Alaska liquefied natural gas project, natural gas**
10 **treatment facilities, natural gas pipeline facilities, liquefaction facilities, marine**
11 **terminal facilities related to the infrastructure of an Alaska liquefied natural gas**
12 **project, an entity or joint venture that has an ownership interest in or is engaged**
13 **in the planning, financing, acquisition, maintenance, construction, and operation**
14 **of an Alaska liquefied natural gas project;**

15 **(24) after consultation with the commissioner of revenue and the**
16 **commissioner of natural resources, enter into contracts relating to an Alaska**
17 **liquefied natural gas project, including contracts for services related to**
18 **operation, marketing, transportation, gas treatment, marine terminal operation,**
19 **or liquefaction.**

20 * Sec. 5. AS 31.25.080(e) is amended to read:

21 (e) If commitments to acquire firm transportation capacity **for the in-state**
22 **natural gas pipeline** are received in an open season conducted by the corporation, the
23 corporation shall, within 10 days after accepting and executing the written
24 commitments received during the open season, report the results of the open season to
25 the president of the senate and the speaker of the house of representatives and inform
26 the public of the results of the open season through publication on the Internet website
27 of the corporation and in a press release or other announcement to the media. The
28 results made public must include the name of each prospective shipper, the amount of
29 capacity allocated, and the period of the commitment. If the corporation determines
30 that the commitments received during the open season are not sufficient to permit the
31 corporation to continue the development or construction of the natural gas pipeline,

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the corporation shall report that to the legislature within 30 days.

* **Sec. 6.** AS 31.25.080 is amended by adding a new subsection to read:

(g) The power in (a)(23) of this section may not be exercised by an entity or subsidiary of the corporation that is advancing the development an in-state natural gas pipeline.

* **Sec. 7.** AS 31.25.090 is amended by adding a new subsection to read:

(i) Subject to limitations on the disclosure of confidential information in (g) and (h) of this section, the corporation shall provide to the commissioner of natural resources and the commissioner of revenue access to information that is related to the development of contracts under AS 38.05.020(b)(10) and (11).

* **Sec. 8.** AS 31.25.100 is amended to read:

Sec. 31.25.100. In-state natural gas pipeline fund. The in-state natural gas pipeline fund is established in the corporation and consists of money appropriated to it. The corporation shall determine fund management and may contract with the Department of Revenue for fund management. Unless otherwise provided by law, money appropriated to the fund lapses into the general fund on the day this section is repealed. Interest and other income received on money in the fund shall be separately accounted for and may be appropriated to the fund. The corporation may use money appropriated to the fund without further appropriation for the cost of managing the fund and for the planning, financing, development, acquisition, maintenance, construction, and operation of the [AN] in-state natural gas pipeline described in AS 31.25.005(4) and for the purposes in AS 31.25.005(4), (6), and (7), but may not use money appropriated to the fund for the purposes described in AS 31.25.005(5).

* **Sec. 9.** AS 31.25 is amended by adding a new section to read:

Sec. 31.25.110. Alaska liquefied natural gas project fund. The Alaska liquefied natural gas project fund is established in the corporation and consists of money appropriated to it. The corporation shall determine fund management and may contract with the Department of Revenue for fund management. If money is appropriated to the fund to finance the cost of an Alaska liquefied natural gas project, the corporation shall create an account in the fund for that purpose and hold the money

1 appropriated for that purpose in that account. Interest and other income received on
2 money in the fund shall be separately accounted for and may be appropriated to the
3 fund. The corporation may use money appropriated to the fund without further
4 appropriation for the purpose of managing the fund, for purposes related to an Alaska
5 liquefied natural gas project, and for the purpose of transferring net revenue received
6 by the corporation related to equity interest, contracts, and other activities to the
7 appropriate fund as determined by the commissioner of revenue in consultation with
8 the commissioner of natural resources, but the corporation may not use the money
9 appropriated to the fund for the purposes described in AS 31.25.005(4).

10 * **Sec. 10.** AS 31.25.120 is amended to read:

11 **Sec. 31.25.120. Creation of subsidiaries.** The corporation may create
12 subsidiary corporations for the purpose of developing, constructing, operating, and
13 financing in-state natural gas pipeline projects or other transportation mechanisms; for
14 the purpose of aiding in the development, construction, operation, and financing of in-
15 state natural gas pipeline projects; or for the purpose of acquiring [THE STATE'S
16 ROYALTY SHARE OF NATURAL GAS,] natural gas from the North Slope, and
17 natural gas from other regions of the state, including the state's outer continental shelf,
18 and making that natural gas available to markets in the state, including the delivery of
19 natural gas, including propane and other hydrocarbons associated with natural gas
20 other than oil, to coastal communities in the state, or for export. A subsidiary
21 corporation created under this section may be incorporated under AS 10.20.146 -
22 10.20.166, or other law applicable to the incorporation of the subsidiary
23 corporation. Subject to the exceptions and limitations for the use of money
24 appropriated to the in-state natural gas pipeline fund (AS 31.25.100) and the
25 Alaska liquefied natural gas project fund (AS 31.25.110), the [. THE] corporation
26 may transfer assets of the corporation to a subsidiary created under this section. A
27 subsidiary created under this section may borrow money and issue bonds as evidence
28 of that borrowing and has all the powers of the corporation that the corporation grants
29 to it. Unless otherwise provided by the corporation, the debts, liabilities, and
30 obligations of a subsidiary corporation created under this section are not the debts,
31 liabilities, or obligations of the corporation.

1 * **Sec. 11.** AS 31.25.140(c) is amended to read:

2 (c) To further ensure effective budgetary decision making by the legislature,
3 the board shall

4 (1) annually review the corporation's assets, including the assets of the
5 in-state natural gas pipeline fund under AS 31.25.100 **and the Alaska liquefied**
6 **natural gas project fund under AS 31.25.110.** to determine whether assets of the
7 corporation exceed an amount required to fulfill the purposes of the corporation as
8 defined in this chapter; in making its review, the board shall determine whether, and to
9 what extent, assets in excess of the amount required to fulfill the purposes of the
10 corporation during the next fiscal year are available without

11 (A) breaching an agreement entered into by the corporation;

12 (B) materially impairing the operations or financial integrity of
13 the corporation; or

14 (C) materially affecting the ability of the corporation to fulfill
15 the purposes of the corporation as defined in this chapter;

16 (2) specifically identify in the corporation's assets the amounts that the
17 board believes are necessary to meet the requirements of (1)(C) of this subsection; and

18 (3) present to the legislature by January 10 of each year a complete
19 accounting of all assets of the corporation, including assets of the in-state natural gas
20 pipeline fund under AS 31.25.100 **and the Alaska liquefied natural gas project**
21 **fund under AS 31.25.110.** and a report of the review and determination made under
22 (1) and (2) of this subsection; the accounting shall be audited by an independent
23 outside auditor.

24 * **Sec. 12.** AS 31.25.390 is amended by adding a new paragraph to read:

25 (7) "Alaska liquefied natural gas project" means a natural gas project
26 as described in AS 31.25.005(5) that includes collectively, the Prudhoe Bay unit gas
27 transmission line, the Point Thomson unit gas transmission line, a gas pipeline, the gas
28 treatment plant, a liquefied natural gas plant, and a marine terminal; in this paragraph,

29 (A) "gas pipeline"

30 (i) means the main natural gas pipeline from the outlet
31 flange of the gas treatment plant on the North Slope to the inlet flange

1 of the liquefied natural gas plant located in the Southcentral region of
2 the state, which shall have off-take points along the pipeline for
3 deliveries of gas in the state;

4 (ii) does not include any gas lines downstream of any
5 off-take point between the gas treatment plant and the liquefied natural
6 gas plant;

7 (B) "gas treatment plant" means those facilities and related
8 activities required to receive natural gas from the Prudhoe Bay unit gas
9 transmission line, the Point Thomson unit gas transmission line, and other
10 facilities, treat the natural gas to pipeline specifications, dispose of or deliver
11 by-products, deliver liquid products for further transportation, and deliver
12 treated natural gas for transportation through the gas pipeline;

13 (C) "liquefied natural gas plant" means the facility, including
14 the structures, equipment, underlying land rights, and all other associated
15 systems for preprocessing and liquefaction of natural gas, and storage, and off-
16 loading of liquefied natural gas;

17 (D) "marine terminal" means the terminal and those facilities
18 required to receive liquefied natural gas from the boundary of the liquefied
19 natural gas plant for marine transportation, including auxiliary vessels used in
20 the operation of the terminal;

21 (E) "Point Thomson unit gas transmission line" means a natural
22 gas transmission line from the outlet flange of the Point Thomson unit
23 production facility to the inlet flange of the gas treatment plant; and

24 (F) "Prudhoe Bay unit gas transmission line" means a natural
25 gas transmission line from the outlet flange of the Prudhoe Bay unit central gas
26 facility to the inlet flange of the gas treatment plant.

27 * **Sec. 13.** AS 38.05.020(b) is amended to read:

28 (b) The commissioner may

29 (1) establish reasonable procedures and adopt reasonable regulations
30 necessary to carry out this chapter and, whenever necessary, issue directives or orders
31 to the director to carry out specific functions and duties; regulations adopted by the

1 commissioner shall be adopted under AS 44.62 (Administrative Procedure Act);
2 orders by the commissioner classifying land, issued after January 3, 1959, are not
3 required to be adopted under AS 44.62 (Administrative Procedure Act);

4 (2) enter into agreements considered necessary to carry out the
5 purposes of this chapter, including agreements with federal and state agencies;

6 (3) review any order or action of the director;

7 (4) exercise the powers and do the acts necessary to carry out the
8 provisions and objectives of this chapter;

9 (5) notwithstanding the provisions of any other section of this chapter,
10 grant an extension of the time within which payments due on any exploration license,
11 lease, or sale of state land, minerals, or materials may be made, including payment of
12 rental and royalties, on a finding that compliance with the requirements is or was
13 prevented by reason of war, riots, or acts of God;

14 (6) classify tracts for agricultural uses;

15 (7) after consulting with the Board of Agriculture and Conservation
16 (AS 03.09.010), waive, postpone, or otherwise modify the development requirements
17 of a contract for the sale of agricultural land if

18 (A) the land is inaccessible by road; or

19 (B) transportation, marketing, and development costs render
20 the required development uneconomic;

21 (8) reconvey or relinquish land or an interest in land to the federal
22 government if

23 (A) the land is described in an amended application for an
24 allotment under 43 U.S.C. 1617; and

25 (B) the reconveyance or relinquishment is

26 (i) for the purposes provided in 43 U.S.C. 1617; and

27 (ii) in the best interests of the state;

28 (9) lead and coordinate all matters relating to the state's review and
29 authorization of resource development projects;

30 (10) **enter into commercial agreements with a duration of not more**
31 **than two years for project services related to a North Slope natural gas project;**

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(11) in consultation with the commissioner of revenue, participate in the negotiation of agreements that include balancing, marketing, disposition of natural gas, and offtake and contracts and development of terms for inclusion in those proposed agreements and contracts associated with a North Slope natural gas project; an agreement or contract negotiated under this paragraph to which the state is a party is not effective unless the legislature authorizes the governor to execute the agreement or contract;

(12) enter into confidentiality agreements to maintain the confidentiality of information related to contract negotiations and contract implementation associated with a North Slope natural gas project; information under those confidentiality agreements is not subject to AS 40.25 (Alaska Public Records Act), except that

(A) the terms of a proposed contract that the commissioner presents to the legislature for the purpose of obtaining authorization for the governor to execute are not confidential; and

(B) the commissioner may share confidential information obtained under this paragraph with the legislature only in committees held in executive session or under confidentiality agreements;

(13) exercise the powers and do the acts necessary to carry out the provisions and objectives of AS 43.90 that relate to this chapter.

* Sec. 14. AS 38.05.020(b), as amended by sec. 13 of this Act, is amended to read:

(b) The commissioner may

(1) establish reasonable procedures and adopt reasonable regulations necessary to carry out this chapter and, whenever necessary, issue directives or orders to the director to carry out specific functions and duties; regulations adopted by the commissioner shall be adopted under AS 44.62 (Administrative Procedure Act); orders by the commissioner classifying land, issued after January 3, 1959, are not required to be adopted under AS 44.62 (Administrative Procedure Act);

(2) enter into agreements considered necessary to carry out the purposes of this chapter, including agreements with federal and state agencies;

(3) review any order or action of the director;

1 (4) exercise the powers and do the acts necessary to carry out the
2 provisions and objectives of this chapter;

3 (5) notwithstanding the provisions of any other section of this chapter,
4 grant an extension of the time within which payments due on any exploration license,
5 lease, or sale of state land, minerals, or materials may be made, including payment of
6 rental and royalties, on a finding that compliance with the requirements is or was
7 prevented by reason of war, riots, or acts of God;

8 (6) classify tracts for agricultural uses;

9 (7) after consulting with the Board of Agriculture and Conservation
10 (AS 03.09.010), waive, postpone, or otherwise modify the development requirements
11 of a contract for the sale of agricultural land if

12 (A) the land is inaccessible by road; or

13 (B) transportation, marketing, and development costs render
14 the required development uneconomic;

15 (8) reconvey or relinquish land or an interest in land to the federal
16 government if

17 (A) the land is described in an amended application for an
18 allotment under 43 U.S.C. 1617; and

19 (B) the reconveyance or relinquishment is

20 (i) for the purposes provided in 43 U.S.C. 1617; and

21 (ii) in the best interests of the state;

22 (9) lead and coordinate all matters relating to the state's review and
23 authorization of resource development projects;

24 (10) enter into commercial agreements with a duration of not more
25 than two years for project services related to a North Slope natural gas project;

26 (11) in consultation with the commissioner of revenue, participate in
27 the negotiation of agreements that include balancing, marketing, disposition of natural
28 gas, and offtake and contracts and development of terms for inclusion in those
29 proposed agreements and contracts associated with a North Slope natural gas project;
30 an agreement or contract negotiated under this paragraph to which the state is a party
31 is not effective unless the legislature authorizes the governor to execute the agreement

1 or contract;

2 (12) enter into confidentiality agreements to maintain the
3 confidentiality of information related to contract negotiations and contract
4 implementation associated with a North Slope natural gas project; information under
5 those confidentiality agreements is not subject to AS 40.25 (Alaska Public Records
6 Act), except that

7 (A) the terms of a proposed contract that the commissioner
8 presents to the legislature for the purpose of obtaining authorization for the
9 governor to execute are not confidential; and

10 (B) the commissioner may share confidential information
11 obtained under this paragraph with the legislature only in committees held in
12 executive session or under confidentiality agreements;

13 (13) in consultation with the commissioner of revenue, take
14 custody of gas delivered to the state under AS 43.55.014(b) and manage the
15 project services and disposition and sale of that gas;

16 (14) exercise the powers and do the acts necessary to carry out the
17 provisions and objectives of AS 43.90 that relate to this chapter.

18 * **Sec. 15.** AS 38.05.180(i) is amended to read:

19 (i) The commissioner may provide for the establishment of an exploration
20 incentive credit system under which a lessee of state land drilling an exploratory well
21 on that land may earn credits based on [UPON] the footage drilled and the region in
22 which the well is situated. The commissioner may also provide for credits to be earned
23 by persons performing geophysical work on state land, if that work is performed
24 during the two seasons immediately preceding an announced lease sale and on land
25 included within the sale area and the geophysical information is made public
26 following the sale. Credits may not exceed 50 percent of the cost of the drilling or
27 geophysical work. Credits may be used during a limited period established by the
28 commissioner and may be assigned during that period. Credits may be applied against
29 (1) royalty and rental payments for oil and gas or for gas only payable to the state or
30 (2) taxes payable under AS 43.55.011 [AS 43.55]. A credit may not exceed 50 percent
31 of the payment toward which it is being applied. Amounts due the Alaska permanent

1 fund (AS 37.13.010) shall be calculated before the application of credits under this
2 subsection.

3 * **Sec. 16.** AS 38.05.180 is amended by adding new subsections to read:

4 (hh) Notwithstanding (j) of this section, the commissioner may propose
5 modification to a lease from which a lessee has committed gas from that lease to a
6 North Slope natural gas project. A modification may be made under this subsection
7 only after the commissioner makes the written determination under (ii) of this section
8 that the lease may be modified. If a modification is made, the modification shall be in
9 effect during the initial project term that has acquired the major permits required for
10 the work plan and budget considered by the commissioner in the written determination
11 under (ii) of this section. A modification under this subsection may

12 (1) relate to switching between taking the state's royalty gas in value
13 and in-kind to ensure that the lessee, the state, or another person shall bear
14 proportionate costs for treatment, transportation, and liquefaction to the state's royalty
15 gas, and the state's actions do not unreasonably interfere with the long-term marketing
16 of natural gas by the lessee, the state, or another person;

17 (2) provide a method for establishing a fair market value for each
18 component of the state's royalty gas and appropriate adjustments to reflect fair market
19 deductions for reasonable costs for treatment, transportation, and liquefaction for the
20 state's royalty gas from the North Slope to the destination market; in this paragraph,
21 "reasonable costs for treatment, transportation, and liquefaction" may not be greater
22 than actual costs;

23 (3) modify net profit shares for oil and gas and sliding scale royalty
24 rates for gas by establishing fixed royalty rates that yield a value to the state that the
25 commissioner determines to be not less than the value the state would have received
26 under the terms of the lease before a modification under this subsection.

27 (ii) Before making a modification to a lease under (hh) of this section, the
28 commissioner shall make a written determination that the lease may be modified. The
29 determination by the commissioner must be based on a clear and convincing showing
30 by the lessee that

31 (1) the modification

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- (A) is in the best interests of the state; and
- (B) will materially improve the likelihood of a successful North Slope natural gas project;
- (2) the North Slope natural gas project has sufficient
 - (A) financial commitment for a work plan and budget necessary to support major permits and regulatory filings required by state and federal agencies; and
 - (B) commitment of gas by lessees; and
- (3) the lease will produce hydrocarbons that will be transported on the North Slope natural gas project during the initial project term.

* **Sec. 17.** AS 38.05.180(hh), as enacted in sec. 16 of this Act, is amended to read:

(hh) Notwithstanding (j) of this section, the commissioner may propose modification to a lease from which a lessee has committed gas from that lease to a North Slope natural gas project. A modification may be made under this subsection only after the commissioner makes the written determination under (ii) of this section that the lease may be modified. If a modification is made, the modification shall be in effect during the initial project that has acquired the major permits required for the work plan and budget considered by the commissioner in the written determination under (ii) of this section. A modification under this subsection may

(1) relate to switching between taking the state's royalty gas in value and in-kind to ensure that the lessee, the state, or another person shall bear proportionate costs for treatment, transportation, and liquefaction to the state's royalty gas or gas delivered to the state under AS 43.55.014, and the state's actions do not unreasonably interfere with the long-term marketing of natural gas by the lessee, the state, or another person;

(2) provide a method for establishing a fair market value for each component of the state's royalty gas and appropriate adjustments to reflect fair market deductions for reasonable costs for treatment, transportation, and liquefaction for the state's royalty gas from the North Slope to the destination market; in this paragraph, "reasonable costs for treatment, transportation, and liquefaction" may not be greater than actual costs;

1 (3) modify net profit shares for oil and gas and sliding scale royalty
2 rates for gas by establishing fixed royalty rates that yield a value to the state that the
3 commissioner determines to be not less than the value the state would have received
4 under the terms of the lease before a modification under this subsection.

5 * **Sec. 18.** AS 38.05.183(a) is amended to read:

6 (a) The sale, exchange, or other disposal of a mineral obtained by the state as a
7 royalty under AS 38.05.182, [OR] the sale, exchange, or other disposal in whole or in
8 part of a right to receive future mineral production under a state lease under this
9 chapter, **or the sale, exchange, or other disposal of gas delivered to the state under**
10 **AS 43.55.014(b)** shall be by competitive bid and the sale, exchange, or other disposal
11 made to the highest responsible bidder, except that competitive bidding is not required
12 when the commissioner, after prior written notice to the Alaska Royalty Oil and Gas
13 Development Advisory Board under AS 38.06.050, determines that the best interest of
14 the state does not require it or that no competition exists.

15 * **Sec. 19.** AS 38.05.183(c) is amended to read:

16 (c) If the commissioner determines that a sale, exchange, or other disposal of a
17 mineral obtained by the state as a royalty under AS 38.05.182, [OR] of a right to
18 receive future mineral production under a state lease under this chapter, **or of gas**
19 **delivered to the state under AS 43.55.014(b)** shall be made otherwise than by
20 competitive bid, and the Alaska Royalty Oil and Gas Development Advisory Board
21 has been notified in writing of that determination, the commissioner shall make public
22 in writing the specific findings and conclusions **on** [UPON] which that determination
23 is based.

24 * **Sec. 20.** AS 38.05.183(d) is amended to read:

25 (d) Oil or gas taken in kind by the state as its royalty share **or gas delivered to**
26 **the state under AS 43.55.014(b)** may not be sold or otherwise disposed of for export
27 from the state until the commissioner determines that the [ROYALTY-IN-KIND] oil
28 or gas is surplus to the present and projected intrastate domestic and industrial needs.
29 The commissioner shall make public, in writing, the specific findings and reasons on
30 which the determination is based.

31 * **Sec. 21.** AS 38.05.183(e) is amended to read:

1 (e) When a sale, exchange, or other disposal of oil or gas taken in kind by the
2 state as its royalty share, or a sale, exchange, or other disposal in whole or in part of a
3 right to receive future royalty oil or gas, under a state lease under this chapter is made
4 other than by competitive bid, or when a sale, exchange, or other disposal of gas
5 delivered to the state under AS 43.55.014(b) is made other than by competitive
6 bid, the sale, exchange, or other disposal shall be awarded by the commissioner to the
7 prospective buyer whose proposal offers the maximum benefits to citizens of the state.

8 The commissioner shall consider

- 9 (1) the cash value offered;
- 10 (2) the projected effects of the sale, exchange, or other disposal on the
11 economy of the state;
- 12 (3) the projected benefits of refining or processing the oil or gas in the
13 state;
- 14 (4) the ability of the prospective buyer to provide refined products or
15 by-products for distribution and sale in the state with price or supply benefits to the
16 citizens of the state; and
- 17 (5) the criteria listed in AS 38.06.070(a).

18 * **Sec. 22.** AS 38.05.965 is amended by adding new paragraphs to read:

19 (26) "initial project term" means the duration sufficient to support an
20 investment decision by the sponsors of a North Slope natural gas project to permit
21 realization of a competitive economic return, to enable necessary financing, and to
22 support agreements for the sale of hydrocarbons transported on a North Slope natural
23 gas project;

24 (27) "North Slope natural gas project" means a project to produce
25 natural gas from state oil and gas leases that include land north of 68 degrees North
26 latitude for transport in a gaseous state from the North Slope;

27 (28) "project services" means services provided by a gas treatment
28 plant, pipeline, liquefaction facility, or marine terminal, marine transportation
29 services, or other services necessary to transport natural gas to market.

30 * **Sec. 23.** AS 38.34.020(a) is amended to read:

- 31 (a) A state agency or entity conducting a review or taking action relating to a

1 project under AS 31.25 (Alaska Gasline Development Corporation) [THE IN-
2 STATE NATURAL GAS PIPELINE PROJECT UNDER THIS CHAPTER] shall
3 expedite the review or action in a manner consistent with the timely completion of the
4 project.

5 * **Sec. 24.** AS 38.34.020(b) is amended to read:

6 (b) Notwithstanding any contrary provision of law, a state agency or entity
7 may not include in any project certificate, right-of-way, permit, or other authorization
8 a term or condition that is not required by law if the in-state gasline project
9 coordinator determines that the term or condition would prevent or impair, in any
10 significant respect, the expeditious construction and operation or expansion of a
11 project under AS 31.25 (Alaska Gasline Development Corporation) [THE IN-
12 STATE NATURAL GAS PIPELINE PROJECT].

13 * **Sec. 25.** AS 38.34.020(c) is amended to read:

14 (c) Unless required by law, a state agency or entity may not add to, amend, or
15 abrogate any certificate, right-of-way, permit, or other authorization if the in-state
16 gasline project coordinator determines that the action would prevent or impair, in any
17 significant respect, the expeditious construction, operation, or expansion of a project
18 under AS 31.25 (Alaska Gasline Development Corporation) [THE IN-STATE
19 NATURAL GAS PIPELINE PROJECT].

20 * **Sec. 26.** AS 40.25.100(a) is amended to read:

21 (a) Information in the possession of the Department of Revenue that discloses
22 the particulars of the business or affairs of a taxpayer or other person, including
23 information under AS 38.05.020(b)(11) that is subject to a confidentiality
24 agreement under AS 38.05.020(b)(12), is not a matter of public record, except as
25 provided in AS 43.05.230(i) or for purposes of investigation and law enforcement. The
26 information shall be kept confidential except when its production is required in an
27 official investigation, administrative adjudication under AS 43.05.405 - 43.05.499, or
28 court proceeding. These restrictions do not prohibit the publication of statistics
29 presented in a manner that prevents the identification of particular reports and items,
30 prohibit the publication of tax lists showing the names of taxpayers who are delinquent
31 and relevant information that may assist in the collection of delinquent taxes, or

1 prohibit the publication of records, proceedings, and decisions under AS 43.05.405 -
2 43.05.499.

3 * **Sec. 27.** AS 40.25.100, as amended by sec. 26 of this Act, is amended to read:

4 (a) Information in the possession of the Department of Revenue that discloses
5 the particulars of the business or affairs of a taxpayer or other person, including
6 information under AS 38.05.020(b)(11) that is subject to a confidentiality agreement
7 under AS 38.05.020(b)(12), is not a matter of public record, except as provided in
8 AS 43.05.230(i) or (k) or for purposes of investigation and law enforcement. The
9 information shall be kept confidential except when its production is required in an
10 official investigation, administrative adjudication under AS 43.05.405 - 43.05.499, or
11 court proceeding. These restrictions do not prohibit the publication of statistics
12 presented in a manner that prevents the identification of particular reports and items,
13 prohibit the publication of tax lists showing the names of taxpayers who are delinquent
14 and relevant information that may assist in the collection of delinquent taxes, or
15 prohibit the publication of records, proceedings, and decisions under AS 43.05.405 -
16 43.05.499.

17 * **Sec. 28.** AS 40.25.120(a) is amended to read:

18 (a) Every person has a right to inspect a public record in the state, including
19 public records in recorders' offices, except

20 (1) records of vital statistics and adoption proceedings, which shall be
21 treated in the manner required by AS 18.50;

22 (2) records pertaining to juveniles unless disclosure is authorized by
23 law;

24 (3) medical and related public health records;

25 (4) records required to be kept confidential by a federal law or
26 regulation or by state law;

27 (5) to the extent the records are required to be kept confidential under
28 20 U.S.C. 1232g and the regulations adopted under 20 U.S.C. 1232g in order to secure
29 or retain federal assistance;

30 (6) records or information compiled for law enforcement purposes, but
31 only to the extent that the production of the law enforcement records or information

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(A) could reasonably be expected to interfere with enforcement proceedings;

(B) would deprive a person of a right to a fair trial or an impartial adjudication;

(C) could reasonably be expected to constitute an unwarranted invasion of the personal privacy of a suspect, defendant, victim, or witness;

(D) could reasonably be expected to disclose the identity of a confidential source;

(E) would disclose confidential techniques and procedures for law enforcement investigations or prosecutions;

(F) would disclose guidelines for law enforcement investigations or prosecutions if the disclosure could reasonably be expected to risk circumvention of the law; or

(G) could reasonably be expected to endanger the life or physical safety of an individual;

(7) names, addresses, and other information identifying a person as a participant in the Alaska Higher Education Savings Trust under AS 14.40.802 or the advance college tuition savings program under AS 14.40.803 - 14.40.817;

(8) public records containing information that would disclose or might lead to the disclosure of a component in the process used to execute or adopt an electronic signature if the disclosure would or might cause the electronic signature to cease being under the sole control of the person using it;

(9) reports submitted under AS 05.25.030 concerning certain collisions, accidents, or other casualties involving boats;

(10) records or information pertaining to a plan, program, or procedures for establishing, maintaining, or restoring security in the state, or to a detailed description or evaluation of systems, facilities, or infrastructure in the state, but only to the extent that the production of the records or information

(A) could reasonably be expected to interfere with the implementation or enforcement of the security plan, program, or procedures;

(B) would disclose confidential guidelines for investigations or

1 enforcement and the disclosure could reasonably be expected to risk
2 circumvention of the law; or

3 (C) could reasonably be expected to endanger the life or
4 physical safety of an individual or to present a real and substantial risk to the
5 public health and welfare;

6 (11) the written notification regarding a proposed regulation provided
7 under AS 24.20.105 to the Department of Law and the affected state agency and
8 communications between the Legislative Affairs Agency, the Department of Law, and
9 the affected state agency under AS 24.20.105;

10 (12) records that are

11 (A) proprietary, privileged, or a trade secret in accordance with
12 AS 43.90.150 or 43.90.220(e);

13 (B) applications that are received under AS 43.90 until notice is
14 published under AS 43.90.160;

15 (13) information of the Alaska Gasline Development Corporation
16 created under AS 31.25.010 or a subsidiary of the Alaska Gasline Development
17 Corporation that is confidential by law or under a valid confidentiality agreement;

18 **(14) information under AS 38.05.020(b)(11) that is subject to a**
19 **confidentiality agreement under AS 38.05.020(b)(12).**

20 * **Sec. 29.** AS 43.05.010 is amended to read:

21 **Sec. 43.05.010. Duties of commissioner.** The commissioner of revenue shall

22 (1) exercise general supervision and direct the activities of the
23 Department of Revenue;

24 (2) supervise the fiscal affairs and responsibilities of the department;

25 (3) prescribe uniform rules for investigations and hearings;

26 (4) keep a record of all departmental proceedings, record and file all
27 bonds, and assume custody of returns, reports, papers, and documents of the
28 department;

29 (5) adopt a seal and affix it to each order, process, or certificate issued
30 by the commissioner;

31 (6) keep a record of each order, process, and certificate issued by the

- 1 commissioner, and keep the record open to public inspection at all reasonable times;
- 2 (7) hold hearings and investigations necessary for the administration of
- 3 state tax and revenue laws;
- 4 (8) except as provided in AS 43.05.405 - 43.05.499 and in
- 5 AS 44.64.030, hear and determine appeals of a matter within the jurisdiction of the
- 6 Department of Revenue and enter orders on the appeals that are final unless reversed
- 7 or modified by the courts;
- 8 (9) issue subpoenas to require the attendance of witnesses and the
- 9 production of necessary books, papers, documents, correspondence, and other things;
- 10 (10) order the taking of depositions before a person competent to
- 11 administer oaths;
- 12 (11) administer oaths and take acknowledgments;
- 13 (12) request the attorney general for rulings on the interpretation of the
- 14 tax and revenue laws administered by the department;
- 15 (13) call upon the attorney general to institute actions for recovery of
- 16 unpaid taxes, fees, excises, additions to tax, penalties, and interest;
- 17 (14) issue warrants for the collection of unpaid tax penalties and
- 18 interest and take all steps necessary and proper to enforce full and complete
- 19 compliance with the tax, license, excise, and other revenue laws of the state;
- 20 (15) report to the legislature before February 15 of each year the total
- 21 amount of contributions reported and the total amount of credit claimed during the
- 22 previous calendar year under AS 43.20.014, AS 43.55.019, AS 43.56.018,
- 23 AS 43.65.018, AS 43.75.018, and AS 43.77.045;

24 (16) consult with the commissioner of natural resources on
 25 negotiation of contracts and development of terms for inclusion in proposed
 26 contracts associated with a North Slope natural gas project.

27 * Sec. 30. AS 43.05.010, as amended by sec. 29 of this Act, is amended to read:

- 28 **Sec. 43.05.010. Duties of commissioner.** The commissioner of revenue shall
- 29 (1) exercise general supervision and direct the activities of the
 - 30 Department of Revenue;
 - 31 (2) supervise the fiscal affairs and responsibilities of the department;

- 1 (3) prescribe uniform rules for investigations and hearings;
- 2 (4) keep a record of all departmental proceedings, record and file all
- 3 bonds, and assume custody of returns, reports, papers, and documents of the
- 4 department;
- 5 (5) adopt a seal and affix it to each order, process, or certificate issued
- 6 by the commissioner;
- 7 (6) keep a record of each order, process, and certificate issued by the
- 8 commissioner, and keep the record open to public inspection at all reasonable times;
- 9 (7) hold hearings and investigations necessary for the administration of
- 10 state tax and revenue laws;
- 11 (8) except as provided in AS 43.05.405 - 43.05.499 and in
- 12 AS 44.64.030, hear and determine appeals of a matter within the jurisdiction of the
- 13 Department of Revenue and enter orders on the appeals that are final unless reversed
- 14 or modified by the courts;
- 15 (9) issue subpoenas to require the attendance of witnesses and the
- 16 production of necessary books, papers, documents, correspondence, and other things;
- 17 (10) order the taking of depositions before a person competent to
- 18 administer oaths;
- 19 (11) administer oaths and take acknowledgments;
- 20 (12) request the attorney general for rulings on the interpretation of the
- 21 tax and revenue laws administered by the department;
- 22 (13) call upon the attorney general to institute actions for recovery of
- 23 unpaid taxes, fees, excises, additions to tax, penalties, and interest;
- 24 (14) issue warrants for the collection of unpaid tax penalties and
- 25 interest and take all steps necessary and proper to enforce full and complete
- 26 compliance with the tax, license, excise, and other revenue laws of the state;
- 27 (15) report to the legislature before February 15 of each year the total
- 28 amount of contributions reported and the total amount of credit claimed during the
- 29 previous calendar year under AS 43.20.014, AS 43.55.019, AS 43.56.018,
- 30 AS 43.65.018, AS 43.75.018, and AS 43.77.045;
- 31 (16) consult with the commissioner of natural resources on negotiation

1 of contracts and development of terms for inclusion in proposed contracts associated
2 with a North Slope natural gas project;

3 (17) direct the disposition of revenue received from gas delivered
4 to the state under AS 43.55.014(b) by entering into agreements with the
5 commissioner of natural resources related to the management of the custody and
6 disposition of gas delivered to the state under AS 43.55.014(b).

7 * Sec. 31. AS 43.05.230 is amended by adding a new subsection to read:

8 (k) The name of each person that the department has allowed to make an
9 election under AS 43.55.014(a) and the amount of gas produced from each lease or
10 property to which an effective election under AS 43.55.014 applies is public
11 information.

12 * Sec. 32. AS 43.20.144(f) is amended to read:

13 (f) The extraction factor of a taxpayer subject to this section is a fraction,
14 (1) the numerator of which is the sum of the following for the tax
15 period:

16 (A) the number of barrels of the taxpayer's oil (net of royalty to
17 an unrelated party) produced from or allocated to leases or properties of the
18 taxpayer in this state; and

19 (B) one-sixth of the number of Mcf of the taxpayer's gas,
20 excluding reinjected gas but including gas subject to an election under
21 AS 43.55.014, (net of royalty to an unrelated party) produced from or allocated
22 to leases or properties of the taxpayer in this state [, EXCLUDING
23 REINJECTED GAS]; and

24 (2) the denominator of which is the sum of the following for the tax
25 period:

26 (A) the number of barrels of oil of the taxpayer's consolidated
27 business (net of royalty to an unrelated party) produced from or allocated to
28 leases or properties of the taxpayer's consolidated business everywhere; and

29 (B) one-sixth of the number of Mcf of gas, excluding
30 reinjected gas but including gas subject to an election under AS 43.55.014,
31 of the taxpayer's consolidated business (net of royalty to an unrelated party)

1 produced from or allocated to leases or properties of the taxpayer's
2 consolidated business everywhere [, EXCLUDING REINJECTED GAS].

3 * **Sec. 33.** AS 43.55.011(e) is amended to read:

4 (e) There is levied on the producer of oil or gas a tax for all oil and gas
5 produced each calendar year from each lease or property in the state, less any oil and
6 gas the ownership or right to which is exempt from taxation or constitutes a
7 landowner's royalty interest **or for which a tax is levied by AS 43.55.014.** Except as
8 otherwise provided under (f), (j), (k), (o), and (p) of this section, **for oil and gas**
9 **produced**

10 (1) before January 1, 2014, the tax is equal to the sum of

11 (A) the annual production tax value of the taxable oil and gas
12 as calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

13 (B) the sum, over all months of the calendar year, of the tax
14 amounts determined under (g) of this section;

15 (2) on and after January 1, 2014, **and before January 1, 2022,** the tax
16 is equal to the annual production tax value of the taxable oil and gas as calculated
17 under AS 43.55.160(a)(1) multiplied by 35 percent;

18 **(3) on and after January 1, 2022, the tax for**

19 **(A) oil is equal to the annual production tax value of the**
20 **taxable oil as calculated under AS 43.55.160(h) multiplied by 35 percent;**

21 **(B) gas is equal to 13 percent of the gross value at the point**
22 **of production of the taxable gas; if the gross value at the point of**
23 **production of gas produced from a lease or property is less than zero, that**
24 **gross value at the point of production is considered zero for purposes of**
25 **this subparagraph.**

26 * **Sec. 34.** AS 43.55.011(f) is amended to read:

27 (f) The levy of tax under **(e) of** this section for

28 **(1) oil and gas produced before January 1, 2022, from leases or**
29 **properties that include land** north of 68 degrees North latitude, other than [OIL
30 AND GAS PRODUCTION SUBJECT TO (i) OF THIS SECTION AND] gas subject
31 to (o) of this section, may not be less than

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(A) [(1)] four percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is more than \$25;

(B) [(2)] three percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$20 but not over \$25;

(C) [(3)] two percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$17.50 but not over \$20;

(D) [(4)] one percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$15 but not over \$17.50; or

(E) [(5)] zero percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is \$15 or less; and

(2) oil produced on and after January 1, 2022, from leases or properties that include land north of 68 degrees North latitude, may not be less than

(A) four percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is more than \$25;

(B) three percent of the gross value at the point of production when the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast during the calendar year for which the tax is due is over \$20 but not over \$25;

1 (C) two percent of the gross value at the point of production
2 when the average price per barrel for Alaska North Slope crude oil for
3 sale on the United States West Coast during the calendar year for which
4 the tax is due is over \$17.50 but not over \$20;

5 (D) one percent of the gross value at the point of production
6 when the average price per barrel for Alaska North Slope crude oil for
7 sale on the United States West Coast during the calendar year for which
8 the tax is due is over \$15 but not over \$17.50; or

9 (E) zero percent of the gross value at the point of
10 production when the average price per barrel for Alaska North Slope
11 crude oil for sale on the United States West Coast during the calendar
12 year for which the tax is due is \$15 or less.

13 * **Sec. 35.** AS 43.55 is amended by adding a new section to read:

14 **Sec. 43.55.014. Payment in gas of tax for gas.** (a) For gas produced on and
15 after January 1, 2022, other than gas described in (e) of this section, the department
16 shall allow a producer to make an election, under regulations adopted by the
17 department, to pay in gas the production tax levied by this section in lieu of the tax
18 otherwise levied for the gas by AS 43.55.011(e). An election under this subsection
19 applies only to gas produced from oil and gas leases modified under AS 38.05.180(hh)
20 from which the commissioner of natural resources has determined to take royalty gas
21 in kind under AS 38.05.182.

22 (b) A production tax levied by this section is equal to 13 percent of the gas
23 otherwise taxable under AS 43.55.011(e)(3) produced from each oil and gas lease to
24 which an effective election under (a) of this section applies, when and as that gas is
25 produced. The producer shall pay the tax in gas by delivering that 13 percent of the
26 gas to the state at the point of production.

27 (c) The Department of Natural Resources shall manage under
28 AS 38.05.020(b)(13) the custody and disposition of gas delivered to the state under (b)
29 of this section.

30 (d) If a deficiency in a tax levied by this section is assessed, or if a provision
31 of this title providing for interest or a penalty based on a percentage of a tax liability or

1 tax deficiency applies to gas for which a tax is levied by this section, the amount of the
2 deficiency and the tax amount on which the interest or penalty percentage is calculated
3 is treated for the purpose only of that calculation as having been levied by
4 AS 43.55.011(e) rather than this section.

5 (e) This section does not apply to gas

6 (1) flared, released, or allowed to escape upstream of the point of
7 production of gas; or

8 (2) used in the operation of a lease or property in the state for drilling
9 for or producing oil or gas, or for repressuring a reservoir.

10 * **Sec. 36.** AS 43.55.019(a) is amended to read:

11 (a) A producer of oil or gas is allowed a credit against the tax levied by
12 AS 43.55.011(e) [DUE UNDER THIS CHAPTER] for cash contributions accepted for

13 (1) direct instruction, research, and educational support purposes,
14 including library and museum acquisitions, and contributions to endowment, by an
15 Alaska university foundation or by a nonprofit, public or private, Alaska two-year or
16 four-year college accredited by a regional accreditation association;

17 (2) secondary school level vocational education courses, programs, and
18 facilities by a school district in the state;

19 (3) vocational education courses, programs, and facilities by a state-
20 operated vocational technical education and training school;

21 (4) a facility or an annual intercollegiate sports tournament by a
22 nonprofit, public or private, Alaska two-year or four-year college accredited by a
23 regional accreditation association;

24 (5) Alaska Native cultural or heritage programs and educational
25 support, including mentoring and tutoring, provided by a nonprofit agency for public
26 school staff and for students who are in grades kindergarten through 12 in the state;

27 (6) education, research, rehabilitation, and facilities by an institution
28 that is located in the state and that qualifies as a coastal ecosystem learning center
29 under the Coastal America Partnership established by the federal government; and

30 (7) the Alaska higher education investment fund under AS 37.14.750.

31 * **Sec. 37.** AS 43.55.019(a), as amended by sec. 21, ch. 92, SLA 2010, sec. 14, ch. 7,

1 FSSLA 2011, and sec. 17, ch. 74, SLA 2012, is amended to read:

2 (a) A producer of oil or gas is allowed a credit against the tax levied by
3 AS 43.55.011(e) due under this chapter for cash contributions accepted

4 (1) for direct instruction, research, and educational support purposes,
5 including library and museum acquisitions, and contributions to endowment, by an
6 Alaska university foundation or by a nonprofit, public or private, Alaska two-year or
7 four-year college accredited by a regional accreditation association;

8 (2) for secondary school level vocational education courses, programs,
9 and facilities by a school district in the state;

10 (3) by a state-operated vocational technical education and training
11 school; and

12 (4) for the Alaska higher education investment fund under
13 AS 37.14.750.

14 * **Sec. 38.** AS 43.55.019(e) is amended to read:

15 (e) The credit under this section may not reduce a person's tax liability under
16 AS 43.55.011(e) [THIS CHAPTER] to below zero for any tax year. An unused credit
17 or portion of a credit not used under this section for a tax year may not be sold, traded,
18 transferred, or applied in a subsequent tax year.

19 * **Sec. 39.** AS 43.55.020(a) is amended to read:

20 (a) For a calendar year, a producer subject to tax under AS 43.55.011 shall pay
21 the tax as follows:

22 (1) for oil and gas produced before January 1, 2014, an installment
23 payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied
24 as allowed by law, is due for each month of the calendar year on the last day of the
25 following month; except as otherwise provided under (2) of this subsection, the
26 amount of the installment payment is the sum of the following amounts, less 1/12 of
27 the tax credits that are allowed by law to be applied against the tax levied by
28 AS 43.55.011(e) for the calendar year, but the amount of the installment payment may
29 not be less than zero:

30 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
31 produced from leases or properties in the state outside the Cook Inlet

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sedimentary basin, other than leases or properties subject to AS 43.55.011(f),
the greater of

(i) zero; or

(ii) the sum of 25 percent and the tax rate calculated for
the month under AS 43.55.011(g) multiplied by the remainder obtained
by subtracting 1/12 of the producer's adjusted lease expenditures for the
calendar year of production under AS 43.55.165 and 43.55.170 that are
deductible for the oil and gas under AS 43.55.160 from the gross value
at the point of production of the oil and gas produced from the leases or
properties during the month for which the installment payment is
calculated;

(B) for oil and gas produced from leases or properties subject
to AS 43.55.011(f), the greatest of

(i) zero;

(ii) zero percent, one percent, two percent, three
percent, or four percent, as applicable, of the gross value at the point of
production of the oil and gas produced from the leases or properties
during the month for which the installment payment is calculated; or

(iii) the sum of 25 percent and the tax rate calculated for
the month under AS 43.55.011(g) multiplied by the remainder obtained
by subtracting 1/12 of the producer's adjusted lease expenditures for the
calendar year of production under AS 43.55.165 and 43.55.170 that are
deductible for the oil and gas under AS 43.55.160 from the gross value
at the point of production of the oil and gas produced from those leases
or properties during the month for which the installment payment is
calculated;

(C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for
each lease or property, the greater of

(i) zero; or

(ii) the sum of 25 percent and the tax rate calculated for
the month under AS 43.55.011(g) multiplied by the remainder obtained

1 by subtracting 1/12 of the producer's adjusted lease expenditures for the
2 calendar year of production under AS 43.55.165 and 43.55.170 that are
3 deductible under AS 43.55.160 for the oil or gas, respectively,
4 produced from the lease or property from the gross value at the point of
5 production of the oil or gas, respectively, produced from the lease or
6 property during the month for which the installment payment is
7 calculated;

8 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

9 (i) the sum of 25 percent and the tax rate calculated for
10 the month under AS 43.55.011(g) multiplied by the remainder obtained
11 by subtracting 1/12 of the producer's adjusted lease expenditures for the
12 calendar year of production under AS 43.55.165 and 43.55.170 that are
13 deductible for the oil and gas under AS 43.55.160 from the gross value
14 at the point of production of the oil and gas produced from the leases or
15 properties during the month for which the installment payment is
16 calculated, but not less than zero; or

17 (ii) four percent of the gross value at the point of
18 production of the oil and gas produced from the leases or properties
19 during the month, but not less than zero;

20 (2) an amount calculated under (1)(C) of this subsection for oil or gas
21 subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by
22 carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as
23 applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but
24 substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the
25 amount of taxable gas produced during the month for the amount of taxable gas
26 produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or
27 (2)(A), as applicable, the amount of taxable oil produced during the month for the
28 amount of taxable oil produced during the calendar year;

29 (3) an installment payment of the estimated tax levied by
30 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
31 on the last day of the following month; the amount of the installment payment is the

1 sum of

2 (A) the applicable tax rate for oil provided under
3 AS 43.55.011(i), multiplied by the gross value at the point of production of the
4 oil taxable under AS 43.55.011(i) and produced from the lease or property
5 during the month; and

6 (B) the applicable tax rate for gas provided under
7 AS 43.55.011(i), multiplied by the gross value at the point of production of the
8 gas taxable under AS 43.55.011(i) and produced from the lease or property
9 during the month;

10 (4) any amount of tax levied by AS 43.55.011, net of any credits
11 applied as allowed by law, that exceeds the total of the amounts due as installment
12 payments of estimated tax is due on March 31 of the year following the calendar year
13 of production;

14 (5) for oil and gas produced on and after January 1, 2014, and before
15 January 1, 2022, an installment payment of the estimated tax levied by
16 AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each
17 month of the calendar year on the last day of the following month; except as otherwise
18 provided under (6) of this subsection, the amount of the installment payment is the
19 sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be
20 applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount
21 of the installment payment may not be less than zero:

22 (A) for oil and gas not subject to AS 43.55.011(o) or (p)
23 produced from leases or properties in the state outside the Cook Inlet
24 sedimentary basin, other than leases or properties subject to AS 43.55.011(f),
25 the greater of

26 (i) zero; or

27 (ii) 35 percent multiplied by the remainder obtained by
28 subtracting 1/12 of the producer's adjusted lease expenditures for the
29 calendar year of production under AS 43.55.165 and 43.55.170 that are
30 deductible for the oil and gas under AS 43.55.160 from the gross value
31 at the point of production of the oil and gas produced from the leases or

1 properties during the month for which the installment payment is
2 calculated;

3 (B) for oil and gas produced from leases or properties subject
4 to AS 43.55.011(f), the greatest of

5 (i) zero;

6 (ii) zero percent, one percent, two percent, three
7 percent, or four percent, as applicable, of the gross value at the point of
8 production of the oil and gas produced from the leases or properties
9 during the month for which the installment payment is calculated; or

10 (iii) 35 percent multiplied by the remainder obtained by
11 subtracting 1/12 of the producer's adjusted lease expenditures for the
12 calendar year of production under AS 43.55.165 and 43.55.170 that are
13 deductible for the oil and gas under AS 43.55.160 from the gross value
14 at the point of production of the oil and gas produced from those leases
15 or properties during the month for which the installment payment is
16 calculated, except that, for the purposes of this calculation, a reduction
17 from the gross value at the point of production may apply for oil and
18 gas subject to AS 43.55.160(f) or (g);

19 (C) for oil or gas subject to AS 43.55.011(j), (k), or (o), for
20 each lease or property, the greater of

21 (i) zero; or

22 (ii) 35 percent multiplied by the remainder obtained by
23 subtracting 1/12 of the producer's adjusted lease expenditures for the
24 calendar year of production under AS 43.55.165 and 43.55.170 that are
25 deductible under AS 43.55.160 for the oil or gas, respectively,
26 produced from the lease or property from the gross value at the point of
27 production of the oil or gas, respectively, produced from the lease or
28 property during the month for which the installment payment is
29 calculated;

30 (D) for oil and gas subject to AS 43.55.011(p), the lesser of

31 (i) 35 percent multiplied by the remainder obtained by

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subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil and gas under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated, but not less than zero; or

(ii) four percent of the gross value at the point of production of the oil and gas produced from the leases or properties during the month, but not less than zero;

(6) an amount calculated under (5)(C) of this subsection for oil or gas subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable gas produced during the month for the amount of taxable gas produced during the calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the amount of taxable oil produced during the month for the amount of taxable oil produced during the calendar year;

(7) for oil and gas produced on or after January 1, 2022, an installment payment of the estimated tax levied by AS 43.55.011(e), net of any tax credits applied as allowed by law, is due for each month of the calendar year on the last day of the following month; the amount of the installment payment is the sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount of the installment payment may not be less than zero:

(A) for oil produced from leases or properties that include land north of 68 degrees North latitude, the greatest of

(i) zero;

(ii) zero percent, one percent, two percent, three percent, or four percent, as applicable, of the gross value at the point of production of the oil produced from the leases or

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properties during the month for which the installment payment is calculated; or

(iii) 35 percent multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil under AS 43.55.160(h)(1) from the gross value at the point of production of the oil produced from those leases or properties during the month for which the installment payment is calculated, except that, for the purposes of this calculation, a reduction from the gross value at the point of production may apply for oil subject to AS 43.55.160(f) or 43.55.160(f) and (g);

(B) for oil produced before or during the last calendar year under AS 43.55.024(b) for which the producer could take a tax credit under AS 43.55.024(a), from leases or properties in the state outside the Cook Inlet sedimentary basin, no part of which is north of 68 degrees North latitude, other than leases or properties subject to AS 43.55.011(p), the greater of

(i) zero; or

(ii) 35 percent multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the oil under AS 43.55.160(h)(2) from the gross value at the point of production of the oil produced from the leases or properties during the month for which the installment payment is calculated;

(C) for oil and gas produced from leases or properties subject to AS 43.55.011(p), except as otherwise provided under (8) of this subsection, the sum of

(i) 35 percent multiplied by the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures

1 for the calendar year of production under AS 43.55.165 and
2 43.55.170 that are deductible for the oil under AS 43.55.160(h)(3)
3 from the gross value at the point of production of the oil produced
4 from the leases or properties during the month for which the
5 installment payment is calculated, but not less than zero; and

6 (ii) 13 percent of the gross value at the point of
7 production of the gas produced from the leases or properties
8 during the month, but not less than zero;

9 (D) for oil produced from leases or properties in the state,
10 no part of which is north of 68 degrees North latitude, other than leases or
11 properties subject to (B) or (C) of this paragraph, the greater of

12 (i) zero; or

13 (ii) 35 percent multiplied by the remainder obtained
14 by subtracting 1/12 of the producer's adjusted lease expenditures
15 for the calendar year of production under AS 43.55.165 and
16 43.55.170 that are deductible for the oil under AS 43.55.160(h)(4)
17 from the gross value at the point of production of the oil produced
18 from the leases or properties during the month for which the
19 installment payment is calculated;

20 (E) for gas produced from each lease or property in the
21 state, other than a lease or property subject to AS 43.55.011(p), 13 percent
22 of the gross value at the point of production of the gas produced from the
23 lease or property during the month for which the installment payment is
24 calculated, but not less than zero;

25 (8) an amount calculated under (7)(C) of this subsection may not
26 exceed four percent of the gross value at the point of production of the oil and gas
27 produced from leases or properties subject to AS 43.55.011(p) during the month
28 for which the installment payment is calculated;

29 (9) for purposes of the calculation under (1)(B)(ii), (5)(B)(ii), and
30 (7)(A)(ii) of this subsection, the applicable percentage of the gross value at the
31 point of production is determined under AS 43.55.011(f)(1) or (2) but substituting

1 the phrase "month for which the installment payment is calculated" in
2 AS 43.55.011(f)(1) and (2) for the phrase "calendar year for which the tax is
3 due."

4 * **Sec. 40.** AS 43.55.020(g) is amended to read:

5 (g) Notwithstanding any contrary provision of AS 43.05.225,

6 (1) before January 1, 2014, an unpaid amount of an installment
7 payment required under (a)(1) - (3) of this section that is not paid when due bears
8 interest (A) at the rate provided for an underpayment under 26 U.S.C. 6621 (Internal
9 Revenue Code), as amended, compounded daily, from the date the installment
10 payment is due until March 31 following the calendar year of production, and (B) as
11 provided for a delinquent tax under AS 43.05.225 after that March 31; interest accrued
12 under (A) of this paragraph that remains unpaid after that March 31 is treated as an
13 addition to tax that bears interest under (B) of this paragraph; an unpaid amount of tax
14 due under (a)(4) of this section that is not paid when due bears interest as provided for
15 a delinquent tax under AS 43.05.225;

16 (2) on and after January 1, 2014, an unpaid amount of an installment
17 payment required under (a)(3), (5), [OR] (6), or (7) of this section that is not paid
18 when due bears interest (A) at the rate provided for an underpayment under 26 U.S.C.
19 6621 (Internal Revenue Code), as amended, compounded daily, from the date the
20 installment payment is due until March 31 following the calendar year of production,
21 and (B) as provided for a delinquent tax under AS 43.05.225 after that March 31;
22 interest accrued under (A) of this paragraph that remains unpaid after that March 31 is
23 treated as an addition to tax that bears interest under (B) of this paragraph; an unpaid
24 amount of tax due under (a)(4) of this section that is not paid when due bears interest
25 as provided for a delinquent tax under AS 43.05.225.

26 * **Sec. 41.** AS 43.55.020(h) is amended to read:

27 (h) Notwithstanding any contrary provision of AS 43.05.280,

28 (1) an overpayment of an installment payment required under (a)(1),
29 (2), (3), (5), (6), or (7) [(a)(1) - (3), (5) OR (6)] of this section bears interest at the rate
30 provided for an overpayment under 26 U.S.C. 6621 (Internal Revenue Code), as
31 amended, compounded daily, from the later of the date the installment payment is due

1 or the date the overpayment is made, until the earlier of

2 (A) the date it is refunded or is applied to an underpayment; or

3 (B) March 31 following the calendar year of production;

4 (2) except as provided under (1) of this subsection, interest with
5 respect to an overpayment is allowed only on any net overpayment of the payments
6 required under (a) of this section that remains after the later of March 31 following the
7 calendar year of production or the date that the statement required under
8 AS 43.55.030(a) is filed;

9 (3) interest is allowed under (2) of this subsection only from a date that
10 is 90 days after the later of March 31 following the calendar year of production or the
11 date that the statement required under AS 43.55.030(a) is filed; interest is not allowed
12 if the overpayment was refunded within the 90-day period;

13 (4) interest under (2) and (3) of this subsection is paid at the rate and in
14 the manner provided in AS 43.05.225(1).

15 * **Sec. 42.** AS 43.55.020(*l*) is amended to read:

16 (*l*) **For oil and gas produced on** [ON] and after January 1, 2014, **and before**
17 **January 1, 2022,** in making settlement with the royalty owner for oil and gas that is
18 taxable under AS 43.55.011, the producer may deduct the amount of the tax paid on
19 taxable royalty oil and gas, or may deduct taxable royalty oil or gas equivalent in
20 value at the time the tax becomes due to the amount of the tax paid. If the total
21 deductions of installment payments of estimated tax for a calendar year exceed the
22 actual tax for that calendar year, the producer shall, before April 1 of the following
23 year, refund the excess to the royalty owner. Unless otherwise agreed between the
24 producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e) on
25 taxable royalty oil and gas for a calendar year, other than oil and gas the ownership or
26 right to which constitutes a landowner's royalty interest, is considered to be the gross
27 value at the point of production of the taxable royalty oil and gas produced during the
28 calendar year multiplied by a figure that is a quotient, in which

29 (1) the numerator is the producer's total tax liability under
30 **AS 43.55.011(e)(2)** [AS 43.55.011(e)] for the calendar year of production; and

31 (2) the denominator is the total gross value at the point of production

1 of the oil and gas taxable under AS 43.55.011(e) produced by the producer from all
2 leases and properties in the state during the calendar year.

3 * **Sec. 43.** AS 43.55.020 is amended by adding a new subsection to read:

4 (m) For oil and gas produced on and after January 1, 2022, in making
5 settlement with the royalty owner for oil and gas that is taxable under AS 43.55.011,
6 the producer may deduct the amount of the tax paid on taxable royalty oil and gas, or
7 may deduct taxable royalty oil or gas equivalent in value at the time the tax becomes
8 due to the amount of the tax paid. If the total deductions of installment payments of
9 estimated tax for a calendar year exceed the actual tax for that calendar year, the
10 producer shall, before April 1 of the following year, refund the excess to the royalty
11 owner. In making settlement with the royalty owner for gas that is taxable under
12 AS 43.55.014, the producer may deduct the amount of the gas paid as in kind tax on
13 taxable royalty gas or may deduct the gross value at the point of production of the gas
14 paid as in-kind tax on taxable royalty gas. Unless otherwise agreed between the
15 producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e) on
16 taxable royalty oil for a calendar year, other than oil the ownership or right to which
17 constitutes a landowner's royalty interest, is considered to be the gross value at the
18 point of production of the taxable royalty oil produced during the calendar year
19 multiplied by a figure that is a quotient, in which

20 (1) the numerator is the producer's total tax liability under
21 AS 43.55.011(e)(3)(A) for the calendar year of production; and

22 (2) the denominator is the total gross value at the point of production
23 of the oil taxable under AS 43.55.011(e) produced by the producer from all leases and
24 properties in the state during the calendar year.

25 * **Sec. 44.** AS 43.55.030(a) is amended to read:

26 (a) A producer that produces oil or gas from a lease or property in the state
27 during a calendar year, whether or not any tax payment is due under AS 43.55.020(a)
28 for that oil or gas, shall file with the department on March 31 of the following year a
29 statement, under oath, in a form prescribed by the department, giving, with other
30 information required, the following:

31 (1) a description of each lease or property from which oil or gas was

1 produced, by name, legal description, lease number, or accounting codes assigned by
2 the department;

3 (2) the names of the producer and, if different, the person paying the
4 tax, if any;

5 (3) the gross amount of oil and the gross amount of gas produced from
6 each lease or property, separately identifying the gross amount of gas produced
7 from each oil and gas lease to which an effective election under AS 43.55.014(a)
8 applies, the amount of gas delivered to the state under AS 43.55.014(b), and the
9 percentage of the gross amount of oil and gas owned by the producer;

10 (4) the gross value at the point of production of the oil and of the gas
11 produced from each lease or property owned by the producer and the costs of
12 transportation of the oil and gas;

13 (5) the name of the first purchaser and the price received for the oil and
14 for the gas, unless relieved from this requirement in whole or in part by the
15 department;

16 (6) the producer's qualified capital expenditures, as defined in
17 AS 43.55.023, other lease expenditures under AS 43.55.165, and adjustments or other
18 payments or credits under AS 43.55.170;

19 (7) the production tax values of the oil and gas under AS 43.55.160(a)
20 or of the oil under AS 43.55.160(h), as applicable [AS 43.55.160];

21 (8) any claims for tax credits to be applied; and

22 (9) calculations showing the amounts, if any, that were or are due
23 under AS 43.55.020(a) and interest on any underpayment or overpayment.

24 * **Sec. 45.** AS 43.55.160(a) is amended to read:

25 (a) For oil and gas produced before January 1, 2022, except [EXCEPT] as
26 provided in (b), (f), and (g) of this section, for the purposes of

27 (1) AS 43.55.011(e)(1) and (2) [AS 43.55.011(e)], the annual
28 production tax value of taxable oil, gas, or oil and gas produced during a calendar year
29 in a category for which a separate annual production tax value is required to be
30 calculated under this paragraph is the gross value at the point of production of that oil,
31 gas, or oil and gas taxable under AS 43.55.011(e), less the producer's lease

1 expenditures under AS 43.55.165 for the calendar year applicable to the oil, gas, or oil
2 and gas in that category produced by the producer during the calendar year, as
3 adjusted under AS 43.55.170; a separate annual production tax value shall be
4 calculated for

5 (A) oil and gas produced from leases or properties in the state
6 that include land north of 68 degrees North latitude, other than gas produced
7 before 2022 and used in the state;

8 (B) oil and gas produced from leases or properties in the state
9 outside the Cook Inlet sedimentary basin, no part of which is north of 68
10 degrees North latitude and that qualifies for a tax credit under AS 43.55.024(a)
11 and (b); this subparagraph does not apply to

12 (i) gas produced before 2022 and used in the state; or

13 (ii) oil and gas subject to AS 43.55.011(p);

14 (C) oil produced before 2022 from each lease or property in the
15 Cook Inlet sedimentary basin;

16 (D) gas produced before 2022 from each lease or property in
17 the Cook Inlet sedimentary basin;

18 (E) gas produced before 2022 from each lease or property in
19 the state outside the Cook Inlet sedimentary basin and used in the state, other
20 than gas subject to AS 43.55.011(p);

21 (F) oil and gas subject to AS 43.55.011(p) produced from
22 leases or properties in the state;

23 (G) oil and gas produced from leases or properties in the state
24 no part of which is north of 68 degrees North latitude, other than oil or gas
25 described in (B), (C), (D), (E), or (F) of this paragraph;

26 (2) AS 43.55.011(g), for oil and gas produced before January 1, 2014,
27 the monthly production tax value of the taxable

28 (A) oil and gas produced during a month from leases or
29 properties in the state that include land north of 68 degrees North latitude is the
30 gross value at the point of production of the oil and gas taxable under
31 AS 43.55.011(e) and produced by the producer from those leases or properties,

1 less 1/12 of the producer's lease expenditures under AS 43.55.165 for the
2 calendar year applicable to the oil and gas produced by the producer from
3 those leases or properties, as adjusted under AS 43.55.170; this subparagraph
4 does not apply to gas subject to AS 43.55.011(o);

5 (B) oil and gas produced during a month from leases or
6 properties in the state outside the Cook Inlet sedimentary basin, no part of
7 which is north of 68 degrees North latitude, is the gross value at the point of
8 production of the oil and gas taxable under AS 43.55.011(e) and produced by
9 the producer from those leases or properties, less 1/12 of the producer's lease
10 expenditures under AS 43.55.165 for the calendar year applicable to the oil and
11 gas produced by the producer from those leases or properties, as adjusted under
12 AS 43.55.170; this subparagraph does not apply to gas subject to
13 AS 43.55.011(o);

14 (C) oil produced during a month from a lease or property in the
15 Cook Inlet sedimentary basin is the gross value at the point of production of
16 the oil taxable under AS 43.55.011(e) and produced by the producer from that
17 lease or property, less 1/12 of the producer's lease expenditures under
18 AS 43.55.165 for the calendar year applicable to the oil produced by the
19 producer from that lease or property, as adjusted under AS 43.55.170;

20 (D) gas produced during a month from a lease or property in
21 the Cook Inlet sedimentary basin is the gross value at the point of production
22 of the gas taxable under AS 43.55.011(e) and produced by the producer from
23 that lease or property, less 1/12 of the producer's lease expenditures under
24 AS 43.55.165 for the calendar year applicable to the gas produced by the
25 producer from that lease or property, as adjusted under AS 43.55.170;

26 (E) gas produced during a month from a lease or property
27 outside the Cook Inlet sedimentary basin and used in the state is the gross
28 value at the point of production of that gas taxable under AS 43.55.011(e) and
29 produced by the producer from that lease or property, less 1/12 of the
30 producer's lease expenditures under AS 43.55.165 for the calendar year
31 applicable to that gas produced by the producer from that lease or property, as

1 adjusted under AS 43.55.170.

2 * **Sec. 46.** AS 43.55.160(e) is amended to read:

3 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that
4 would otherwise be deductible by a producer in a calendar year but whose deduction
5 would cause an annual production tax value calculated under (a)(1) or (h) of this
6 section of taxable oil or gas produced during the calendar year to be less than zero
7 may be used to establish a carried-forward annual loss under AS 43.55.023(b).
8 However, the department shall provide by regulation a method to ensure that, for a
9 period for which a producer's tax liability is limited by AS 43.55.011(j), (k), (o), or
10 (p), any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that would
11 otherwise be deductible by a producer for that period but whose deduction would
12 cause a production tax value calculated under (a)(1)(C), (D), (E), [OR] (F), or (h)(3)
13 of this section to be less than zero are accounted for as though the adjusted lease
14 expenditures had first been used as deductions in calculating the production tax values
15 of oil or gas subject to any of the limitations under AS 43.55.011(j), (k), (o), or (p) that
16 have positive production tax values so as to reduce the tax liability calculated without
17 regard to the limitation to the maximum amount provided for under the applicable
18 provision of AS 43.55.011(j), (k), (o), or (p). Only the amount of those adjusted lease
19 expenditures remaining after the accounting provided for under this subsection may be
20 used to establish a carried-forward annual loss under AS 43.55.023(b). In this
21 subsection, "producer" includes "explorer."

22 * **Sec. 47.** AS 43.55.160(f) is amended to read:

23 (f) On and after January 1, 2014, in the calculation of an annual production tax
24 value of a producer under (a)(1)(A) or (h)(1) [(a)(1)] of this section, the gross value at
25 the point of production of oil or gas produced from a lease or property north of 68
26 degrees North latitude meeting one or more of the following criteria is reduced by 20
27 percent: (1) the oil or gas is produced from a lease or property that does not contain a
28 lease that was within a unit on January 1, 2003; (2) the oil or gas is produced from a
29 participating area established after December 31, 2011, that is within a unit formed
30 under AS 38.05.180(p) before January 1, 2003, if the participating area does not
31 contain a reservoir that had previously been in a participating area established before

1 December 31, 2011; (3) the oil or gas is produced from acreage that was added to an
2 existing participating area by the Department of Natural Resources on and after
3 January 1, 2014, and the producer demonstrates to the department that the volume of
4 oil or gas produced is from acreage added to an existing participating area. This
5 subsection does not apply to gas produced before 2022 that is used in the state or to
6 gas produced on and after January 1, 2022. A reduction under this subsection may
7 not reduce the gross value at the point of production below zero. In this subsection,
8 "participating area" means a reservoir or portion of a reservoir producing or
9 contributing to production as approved by the Department of Natural Resources.

10 * **Sec. 48.** AS 43.55.160(g) is amended to read:

11 (g) On and after January 1, 2014, in addition to the reduction under (f) of this
12 section, in the calculation of an annual production tax value of a producer under
13 (a)(1)(A) or (h)(1) [(a)(1)] of this section, the gross value at the point of production of
14 oil or gas produced from a lease or property north of 68 degrees North latitude that
15 does not contain a lease that was within a unit on January 1, 2003, is reduced by 10
16 percent if the oil or gas is produced from a unit made up solely of leases that have a
17 royalty share of more than 12.5 percent in amount or value of the production removed
18 or sold from the lease as determined under AS 38.05.180(f). This subsection does not
19 apply if the royalty obligation for one or more of the leases in the unit has been
20 reduced to 12.5 percent or less under AS 38.05.180(j) for all or part of the calendar
21 year for which the annual production tax value is calculated. This subsection does not
22 apply to gas produced before 2022 that is used in the state or to gas produced on and
23 after January 1, 2022. A reduction under this subsection may not reduce the gross
24 value at the point of production below zero.

25 * **Sec. 49.** AS 43.55.160 is amended by adding a new subsection to read:

26 (h) For oil produced on and after January 1, 2022, except as provided in (b),
27 (f), and (g) of this section, for the purposes of AS 43.55.011(e)(3), the annual
28 production tax value of oil taxable under AS 43.55.011(e) produced by a producer
29 during a calendar year

30 (1) from leases or properties in the state that include land north of 68
31 degrees North latitude is the gross value at the point of production of that oil, less the

1 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to
2 explore for, develop, or produce oil or gas deposits located in the state north of 68
3 degrees North latitude or located in leases or properties in the state that include land
4 north of 68 degrees North latitude, as adjusted under AS 43.55.170;

5 (2) before or during the last calendar year under AS 43.55.024(b) for
6 which the producer could take a tax credit under AS 43.55.024(a), from leases or
7 properties in the state outside the Cook Inlet sedimentary basin, no part of which is
8 north of 68 degrees North latitude, other than leases or properties subject to
9 AS 43.55.011(p), is the gross value at the point of production of that oil, less the
10 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to
11 explore for, develop, or produce oil or gas deposits located in the state outside the
12 Cook Inlet sedimentary basin and south of 68 degrees North latitude, other than oil or
13 gas deposits located in a lease or property that includes land north of 68 degrees North
14 latitude or that is subject to AS 43.55.011(p) or, before January 1, 2027, from which
15 commercial production has not begun, as adjusted under AS 43.55.170;

16 (3) from leases or properties subject to AS 43.55.011(p) is the gross
17 value at the point of production of that oil, less the producer's lease expenditures under
18 AS 43.55.165 for the calendar year incurred to explore for, develop, or produce oil or
19 gas deposits located in leases or properties subject to AS 43.55.011(p) or, before
20 January 1, 2027, located in leases or properties in the state outside the Cook Inlet
21 sedimentary basin, no part of which is north of 68 degrees North latitude from which
22 commercial production has not begun, as adjusted under AS 43.55.170;

23 (4) from leases or properties in the state no part of which is north of 68
24 degrees North latitude, other than leases or properties subject to (2) or (3) of this
25 subsection, is the gross value at the point of production of that oil less the producer's
26 lease expenditures under AS 43.55.165 for the calendar year incurred to explore for,
27 develop, or produce oil or gas deposits located in the state south of 68 degrees North
28 latitude, other than oil or gas deposits located in a lease or property in the state that
29 includes land north of 68 degrees North latitude, and excluding lease expenditures that
30 are deductible under (2) or (3) of this subsection or would be deductible under (2) or
31 (3) of this subsection if not prohibited by (b) of this section, as adjusted under

1 AS 43.55.170.

2 * **Sec. 50.** AS 43.55.165(e) is amended to read:

3 (e) For purposes of this section, lease expenditures do not include

4 (1) depreciation, depletion, or amortization;

5 (2) oil or gas royalty payments, production payments, lease profit
6 shares, or other payments or distributions of a share of oil or gas production, profit, or
7 revenue, except that a producer's lease expenditures applicable to oil and gas produced
8 from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net
9 profit paid to the state under that lease;

10 (3) taxes based on or measured by net income;

11 (4) interest or other financing charges or costs of raising equity or debt
12 capital;

13 (5) acquisition costs for a lease or property or exploration license;

14 (6) costs arising from fraud, wilful misconduct, gross negligence,
15 violation of law, or failure to comply with an obligation under a lease, permit, or
16 license issued by the state or federal government;

17 (7) fines or penalties imposed by law;

18 (8) costs of arbitration, litigation, or other dispute resolution activities
19 that involve the state or concern the rights or obligations among owners of interests in,
20 or rights to production from, one or more leases or properties or a unit;

21 (9) costs incurred in organizing a partnership, joint venture, or other
22 business entity or arrangement;

23 (10) amounts paid to indemnify the state; the exclusion provided by
24 this paragraph does not apply to the costs of obtaining insurance or a surety bond from
25 a third-party insurer or surety;

26 (11) surcharges levied under AS 43.55.201 or 43.55.300;

27 (12) an expenditure otherwise deductible under (b) of this section that
28 is a result of an internal transfer, a transaction with an affiliate, or a transaction
29 between related parties, or is otherwise not an arm's length transaction, unless the
30 producer establishes to the satisfaction of the department that the amount of the
31 expenditure does not exceed the fair market value of the expenditure;

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(13) an expenditure incurred to purchase an interest in any corporation, partnership, limited liability company, business trust, or any other business entity, whether or not the transaction is treated as an asset sale for federal income tax purposes;

(14) a tax levied under AS 43.55.011 or 43.55.014:

(15) costs incurred for dismantlement, removal, surrender, or abandonment of a facility, pipeline, well pad, platform, or other structure, or for the restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in conjunction with dismantlement, removal, surrender, or abandonment; a cost is not excluded under this paragraph if the dismantlement, removal, surrender, or abandonment for which the cost is incurred is undertaken for the purpose of replacing, renovating, or improving the facility, pipeline, well pad, platform, or other structure;

(16) costs incurred for containment, control, cleanup, or removal in connection with any unpermitted release of oil or a hazardous substance and any liability for damages imposed on the producer or explorer for that unpermitted release; this paragraph does not apply to the cost of developing and maintaining an oil discharge prevention and contingency plan under AS 46.04.030;

(17) costs incurred to satisfy a work commitment under an exploration license under AS 38.05.132;

(18) that portion of expenditures, that would otherwise be qualified capital expenditures, as defined in AS 43.55.023, incurred during a calendar year that are less than the product of \$0.30 multiplied by the total taxable production from each lease or property, in BTU equivalent barrels, during that calendar year, except that, when a portion of a calendar year is subject to this provision, the expenditures and volumes shall be prorated within that calendar year;

(19) costs incurred for repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or equipment, other than a well, that results in or is undertaken in response to a failure, problem, or event that results in an unscheduled interruption of, or reduction in the rate of, oil or gas production; or costs incurred for repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or equipment, other than a well, that is undertaken in response to, or is otherwise

1 associated with, an unpermitted release of a hazardous substance or of gas; however,
2 costs under this paragraph that would otherwise constitute lease expenditures under (a)
3 and (b) of this section may be treated as lease expenditures if the department
4 determines that the repair or replacement is solely necessitated by an act of war, by an
5 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
6 inevitable, and irresistible character, the effects of which could not have been
7 prevented or avoided by the exercise of due care or foresight, or by an intentional or
8 negligent act or omission of a third party, other than a party or its agents in privity of
9 contract with, or employed by, the producer or an operator acting for the producer, but
10 only if the producer or operator, as applicable, exercised due care in operating and
11 maintaining the facility, pipeline, structure, or equipment, and took reasonable
12 precautions against the act or omission of the third party and against the consequences
13 of the act or omission; in this paragraph,

14 (A) "costs incurred for repair, replacement, or deferred
15 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
16 to dismantle and remove the facility, pipeline, structure, or equipment that is
17 being replaced;

18 (B) "hazardous substance" has the meaning given in
19 AS 46.03.826;

20 (C) "replacement" includes renovation or improvement;

21 (20) costs incurred to construct, acquire, or operate a refinery or crude
22 oil topping plant, regardless of whether the products of the refinery or topping plant
23 are used in oil or gas exploration, development, or production operations; however, if
24 a producer owns a refinery or crude oil topping plant that is located on or near the
25 premises of the producer's lease or property in the state and that processes the
26 producer's oil produced from that lease or property into a product that the producer
27 uses in the operation of the lease or property in drilling for or producing oil or gas, the
28 producer's lease expenditures include the amount calculated by subtracting from the
29 fair market value of the product used the prevailing value, as determined under
30 AS 43.55.020(f), of the oil that is processed;

31 (21) costs of lobbying, public relations, public relations advertising, or

1 policy advocacy.

2 * Sec. 51. AS 43.55.900(10) is amended to read:

3 (10) "gas processing plant" means a facility that

4 (A) extracts and recovers liquid hydrocarbons from a gaseous
5 mixture of hydrocarbons by gas processing; and

6 (B) is located upstream of the inlet of any pipeline
7 transporting gas to a gas treatment plant and upstream of the inlet of any gas
8 pipeline system transporting gas to a market;

9 * Sec. 52. AS 43.55.900(20) is amended to read:

10 (20) "point of production" means

11 (A) for oil, the automatic custody transfer meter or device
12 through which the oil enters into the facilities of a carrier pipeline or other
13 transportation carrier in a condition of pipeline quality; in the absence of an
14 automatic custody transfer meter or device, "point of production" means the
15 mechanism or device to measure the quantity of oil that has been approved by
16 the department for that purpose, through which the oil is tendered and accepted
17 in a condition of pipeline quality into the facilities of a carrier pipeline or other
18 transportation carrier or into a field topping plant;

19 (B) for gas [, OTHER THAN GAS DESCRIBED IN (C) OF
20 THIS PARAGRAPH,] that is

21 (i) not subjected to or recovered by mechanical
22 separation or run through a gas processing plant, the farthest upstream
23 of the first point where the gas is accurately metered, the inlet of any
24 pipeline transporting the gas to a gas treatment plant, or the inlet
25 of any gas pipeline system transporting gas to a market;

26 (ii) subjected to or recovered by mechanical separation
27 but not run through a gas processing plant, the farthest upstream of
28 the first point where the gas is accurately metered after completion of
29 mechanical separation, the inlet of any pipeline transporting the gas
30 to a gas treatment plant, or the inlet of any gas pipeline system
31 transporting gas to a market;

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(iii) run through a gas processing plant, the **farthest upstream of the** first point where the gas is accurately metered downstream of the plant, **the inlet of any pipeline transporting the gas to a gas treatment plant, or the inlet of any gas pipeline system transporting gas to a market** [;

(C) FOR GAS RUN THROUGH AN INTEGRATED GAS PROCESSING PLANT AND GAS TREATMENT FACILITY THAT DOES NOT ACCURATELY METER THE GAS AFTER THE GAS PROCESSING AND BEFORE THE GAS TREATMENT, THE FIRST POINT WHERE GAS PROCESSING IS COMPLETED OR WHERE GAS TREATMENT BEGINS, WHICHEVER IS FURTHER UPSTREAM];

* **Sec. 53.** AS 43.55.900 is amended by adding a new paragraph to read:

(25) "gas treatment plant" means a facility that performs gas treatment, regardless of whether the facility also performs gas processing.

* **Sec. 54.** AS 43.90.900(18) is amended to read:

(18) "point of production" has the meaning given in AS 43.55.900 **as that section read on June 8, 2007:**

* **Sec. 55.** AS 43.98.030(c) is amended to read:

(c) A taxpayer acquiring a transferable tax credit certificate may use the credit or a portion of the credit to offset taxes imposed under AS 21.09.210, AS 21.66.110, AS 43.20, **AS 43.55.011** [AS 43.55], AS 43.56, AS 43.65, AS 43.75, and AS 43.77. Except as provided in (e) of this section, any portion of the credit not used may be used at a later period or transferred under (b) of this section.

* **Sec. 56.** AS 31.25.080(f) is repealed.

* **Sec. 57.** The uncodified law of the State of Alaska is amended by adding a new section to read:

RESTRICTIONS ON EMPLOYMENT AFTER LEAVING STATE SERVICE FOR CERTAIN PUBLIC OFFICERS. (a) Notwithstanding AS 39.52.180, a public officer who leaves state service may not, for three years after leaving state service, represent, advise, assist for compensation, or accept employment from a person or an affiliate of a person that was a party to a contract negotiated under the authority of AS 38.05.020(b)(11), enacted by sec. 15

1 of this Act, that was under consideration or negotiated by the administrative unit served by
2 that public officer, and in which the public officer participated personally and substantially
3 through the exercise of official action.

4 (b) This section does not prohibit an agency from contracting with a former public
5 officer to act on a matter on behalf of the state.

6 (c) The application of (a) of this section may not be waived.

7 (d) In this section, "administrative unit," "agency," and "public officer" have the
8 meanings given in AS 39.52.960.

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

11 **REQUESTING THE GOVERNOR TO ESTABLISH AN INTERIM ADVISORY**
12 **BOARD.** The legislature requests the governor to establish an interim advisory board under
13 AS 44.19.028 to advise the governor on municipal involvement in a North Slope natural gas
14 project. Members of the advisory board may include representatives of municipalities, the
15 commissioner of natural resources, the commissioner of revenue, representatives of oil and
16 gas and gas only lessees on the North Slope, and representatives of other persons expected to
17 be directly involved in the development of a North Slope natural gas project. In this section,
18 "North Slope natural gas project" has the meaning given in AS 38.05.965, as amended by sec.
19 22 of this Act.

20 * **Sec. 59.** The uncodified law of the State of Alaska is amended by adding a new section to
21 read:

22 **PLAN AND RECOMMENDATIONS TO THE LEGISLATURE ON**
23 **INFRASTRUCTURE NEEDED TO DELIVER AFFORDABLE ENERGY TO AREAS IN**
24 **THE STATE THAT DO NOT HAVE DIRECT ACCESS TO A NORTH SLOPE NATURAL**
25 **GAS PIPELINE.** (a) The Alaska Energy Authority, in consultation with the Alaska Gasline
26 Development Corporation, the Alaska Industrial Development and Export Authority, and the
27 Department of Revenue, shall develop a plan for developing infrastructure to deliver more
28 affordable energy to areas of the state that are not expected to have direct access to a North
29 Slope natural gas pipeline. The plan must identify ownership options, different energy
30 sources, including fossil fuels, hydro projects, tidal, and other alternative energy sources, and
31 describe and recommend the means for generating, delivering, receiving, and storing energy

1 in the most cost-efficient manner. The Alaska Energy Authority may consider the
2 development of regional energy systems that can receive and store bulk fuel in quantity and
3 distribute that fuel as needed within the region.

4 (b) The Alaska Energy Authority, in consultation with the Department of Revenue,
5 shall recommend a plan for funding the design, development, and construction of the required
6 infrastructure and may identify a source of rent, royalty, income, or tax received by the state
7 that may be appropriated by the legislature to implement the plan.

8 (c) The Alaska Energy Authority shall provide the plan and suggested legislation for
9 the design, development, construction, and financing of the required infrastructure to the
10 legislature before January 1, 2017.

11 * **Sec. 60.** The uncodified law of the State of Alaska is amended by adding a new section to
12 read:

13 DEVELOPMENT OF A PLAN FOR MUNICIPALITIES, REGIONAL
14 CORPORATIONS, AND RESIDENTS TO PARTICIPATE IN THE OWNERSHIP OF A
15 NORTH SLOPE NATURAL GAS PIPELINE. (a) At the time the commissioner of natural
16 resources submits the first agreement or contract to the legislature for approval under
17 AS 38.05.020(b)(11), enacted by sec. 13 of this Act, the commissioner of revenue shall
18 present a plan and suggested legislation to allow a municipality, regional corporation, or
19 resident of the state to participate as a co-owner in a North Slope natural gas pipeline. The
20 plan must include the recommendations of the commissioner as to

21 (1) the means by which a municipality, regional corporation, or resident may
22 invest in the North Slope natural gas pipeline; for a resident, the means may include providing
23 an option to designate an amount of a permanent fund dividend to be deducted for the
24 investment;

25 (2) whether the ownership interest in a North Slope natural gas pipeline should
26 be acquired from the portion of a North Slope natural gas pipeline acquired by the state,
27 through the purchase of stock in a publicly traded corporation that invests in a North Slope
28 natural gas pipeline, or some other means;

29 (3) the means for providing notice to a municipality, regional corporation, or
30 resident receiving an ownership interest that explains the type of ownership interest and the
31 rights and obligations related to that ownership interest;

1 (4) whether the ownership interest received by a municipality, regional
2 corporation, or resident may be transferred or assigned to another person and the means for
3 transferring the interest;

4 (5) the means by which the proportional share of a dividend or other income
5 may be distributed to a municipality, regional corporation, resident, or transferee of an interest
6 if the municipality, regional corporation, or resident receives an ownership interest acquired
7 by the state in a North Slope natural gas pipeline and the state receives a dividend or other
8 income from its ownership interest, and whether the payment should be subject to interest if
9 not timely distributed;

10 (6) the means by which the commissioner may identify a publicly traded
11 corporation that has an ownership interest in a North Slope natural gas pipeline that is subject
12 to investment by a municipality, regional corporation, or a resident under the proposed plan;
13 and

14 (7) the means by which an individual may qualify as a resident for purposes of
15 investing in an ownership interest.

16 (b) In this section,

17 (1) "North Slope natural gas pipeline" means a natural gas pipeline project that
18 transports natural gas produced in the state north of 68 degrees North latitude to a market in
19 the state or to tidewater for export from the state including a facility in the state for liquefying
20 natural gas for transport;

21 (2) "regional corporation" means a regional corporation organized under 43
22 U.S.C. 1606(a) as amended.

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

25 **TRANSITION: REGULATIONS.** The Department of Revenue and the Department of
26 Natural Resources may adopt regulations to implement this Act. The regulations take effect
27 under AS 44.62 (Administrative Procedure Act), but not before the effective date of the
28 provisions of this Act being implemented.

29 * **Sec. 62.** Sections 1 - 13, 15, 16, 22 - 26, 28, 29, 36, 38, and 54 - 61 of this Act take effect
30 immediately under AS 01.10.070(c).

31 * **Sec. 63.** Section 37 of this Act takes effect January 1, 2021.

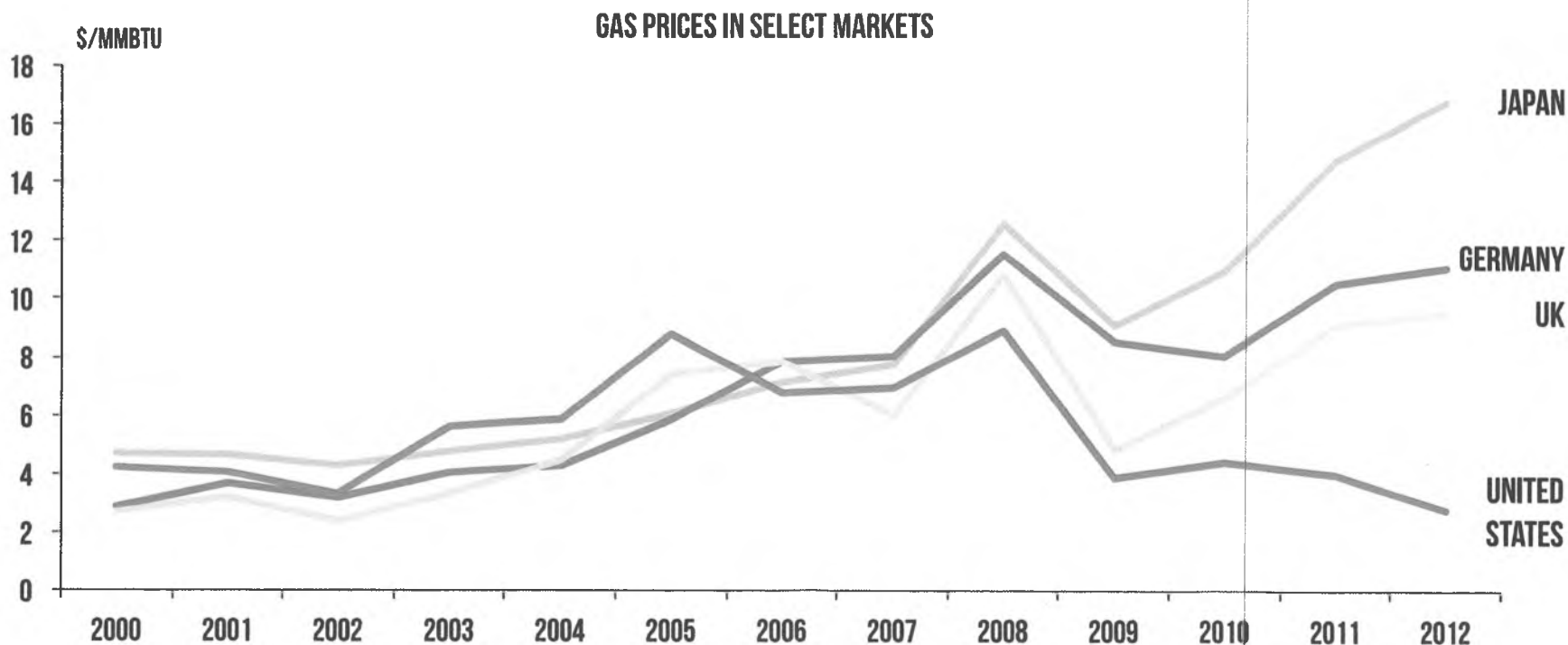
1 * **Sec. 64.** Except as provided in secs. 62 and 63 of this Act, this Act takes effect January 1,
2 2015.

NO SUCH THING AS A “GLOBAL GAS” PRICE

There has always been a major disparity between regional prices

In 2012, Henry Hub in the United States averaged \$2.76/MMBtu; the price in Japan was \$16.75/MMBtu

European pricing was somewhere in the middle: \$9.46/MMBtu in the UK to \$11.03/MMBtu in Germany



SOURCE: BP STATISTICAL REVIEW OF WORLD ENERGY (JUNE 2013)