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THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

A Roadmap to Production of North Slope Gas

January 27, 2014

Submitted by:

Department of Natural Resources

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Department of Revenue

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INTRODUCTION



Introduction to Documents

The State and the North Slope Oil and Gas Producers have reached consensus on a new and comprehensive approach to commercializing Alaska's vast natural gas resources.

For the first time, the State and the Producers have aligned their interests towards building a world-scale LNG project, which will provide reliable supplies of natural gas to Alaska, provide opportunities for expansion of gas exploration outside the North Slope, and open foreign markets to Alaska natural gas. All the parties have agreed on a process of commensurate, proportionate steps that reflect a common-sense commercial approach to building a project of this scale, complexity and cost.

The State's overarching goal is to facilitate a project that provides the maximum benefits for Alaskans. To that end, the State hired independent experts to assess how the State could both enhance the project's competitiveness, assure the highest returns to the State for the use of its natural resources, and provide new jobs for Alaskans. Those experts concluded that the State could materially advance the project, without sacrificing its royalty and taxes, by taking an ownership interest in the project. The agreements and legislation described below, and enclosed in this packet, together serve to advance this major project in a fashion that provides very substantial benefits for the people of Alaska.

The **Heads of Agreement** ("HOA") outlines the guiding principles and understandings for the Producers and the State to advance the Alaska LNG ("AKLNG") project. It lays out the road map in plain terms so that the public and the Alaska Legislature will understand the proposed commercial structure of the project, including State ownership and Producer obligations, before the Legislature deliberates and votes on Enabling Legislation that authorizes the State to proceed.

The State has also built on its relationship with TransCanada to enlist this pre-eminent North American pipeline company as its partner in the AKLNG project under a more traditional commercial arrangement than existed under the Alaska Gasline Inducement Act ("AGIA"). This arrangement will ensure that the State has an experienced and reliable partner in the project and help spread project risk to another party.

The **Memorandum of Understanding** between the State and TransCanada ("MOU") outlines, with commercial specificity, the conditions under which TransCanada proposes to participate in the AKLNG project, including capital structure, and Project expansion provisions. The MOU also provides an option

for the State to increase its return from the Project by acquiring an ownership interest in TransCanada's equity position in the mid-stream Gas Treatment Plant and pipeline.

Senate Bill 138 (SB 138), the proposed legislation relating to the Commercial Production of North Slope Natural Gas, authorizes DNR and DOR to enter into the project's commercial arrangements described in the HOA and the MOU. Among other things, the bill establishes a subsidiary within the Alaska Gasline Development Corporation ("AGDC"), which is progressing the in-state natural gas pipeline, to pursue an equity interest in a large-diameter natural gas project and associated facilities; authorizes DNR to negotiate terms for project services and disposition and sale of gas in a North Slope natural gas project; provides a mechanism for the State to accept royalties and taxes in-kind; allows DNR and DOR to maintain confidentiality of Project information essential to a major project of this scope; provides for review of such information by the Legislature (in executive session); clarifies the essential Project contracts that must be brought back to be approved by the Legislature; authorizes DNR to modify certain lease terms on properties that provide gas to any North Slope natural gas project; and makes changes to Alaska's Oil and Gas production tax.

It is important to note that the State preserved AGDC's in-state natural gas pipeline project. While the AKLNG Project will be progressing through the HOA, MOU and proposed legislation, AGDC will continue full speed ahead to progress its in-state natural gas pipeline project. AGDC will be the State's insurance policy if the AKLNG project falters.

Together, this package of agreements and proposed legislation represent a comprehensive approach to getting Alaska's gas to Alaskans, getting jobs to Alaskans, and moving forward to markets beyond.

INTRO – HOA & MOU



Introduction to Heads of Agreement (HOA) and the Memorandum of Understanding (MOU)

The Alaska LNG (“AKLNG”) project will be world-scale and will supply domestic natural gas to Alaskans, create jobs for Alaskans, and open up Alaska natural gas for export to Asian-Pacific markets such as Japan, Korea, China and India.

But an LNG project on this scale is significantly more complex, commercially and technically, than the natural gas pipeline projects that the State has previously considered. The AKLNG project will require construction of one of the world’s largest gas treatment plants on the North Slope, installation of a large-diameter, 800-mile gas pipeline running from the North Slope to Nikiski, five or more in-state offtake points, construction of a world-class liquefaction plant that can process up to 18 million tons of LNG per year, LNG storage tanks, and a marine terminal. The AKLNG project is estimated to cost between \$45 and \$65 billion dollars.

Successful LNG projects require the participants to negotiate and sign numerous complex commercial contracts covering areas as diverse as Pre-Front End Engineering and Design (“Pre-Feed”), Front End Engineering and Design (“FEED”), Engineering Procurement and Construction (“EPC”), project ownership and finance, gas balancing, gas processing, pipeline transportation, liquefaction, marine transportation, and LNG sales and purchase, to name just a few.

In order to advance a project of this size and complexity, and to lay the ground work for all the final contracts, all necessary parties must first have aligned interests. They must have general agreement on essential terms and agreement on the road map going forward. An agreement is the critical first step.

With the AKLNG project, this first step has been realized in the Heads of Agreement and Memorandum of Understanding.

Heads of Agreement

A “Heads of Agreement” is an understanding traditionally used among major natural gas project parties to outline the guiding principles and main issues necessary to advance a major natural gas project. It represents an important step on the path to legally binding project contracts and sets out the roles and responsibilities of the parties. It is not designed to cover all topics in detail, but is detailed enough to

demonstrate to the parties that they have agreement on the essential project development principles and the road map going forward.

The State administration, AGDC, TransCanada, ExxonMobil, ConocoPhillips Alaska and BP Exploration Alaska have negotiated and signed such a Heads of Agreement for the AKLNG project. This Heads of Agreement was made public in advance of the opening of the Legislature so that the citizens of Alaska and the Alaska Legislature can understand the terms under which the AKLNG project is proposed to move forward before the Alaska Legislature is asked to deliberate and vote on enabling legislation that would authorize the State to proceed.

The Heads of Agreement has 10 main articles in addition to the definitions in Article 1. Below is a brief description of the subject matter of these articles.

Article 2 describes the set of guiding principles for the AKLNG project.

Article 3 identifies the benefits to all the parties if the project succeeds.

Article 4 describes the road map going forward. It sets out the details of the phased approach to project development, sets out the intention of the parties to complete the approximately \$500 million dollar necessary Pre-FEED stage within 24 months, and recognizes the necessity of negotiating the detailed commercial contracts and of obtaining enabling legislation necessary to proceed to the critical FEED stage of the project.

Article 4 also recognizes that the parties will need to reassess the project information gathered during Pre-FEED before making a commitment in excess of a billion dollars to full-scale FEED.

Article 5 describes State participation in the project. In general terms, the State will participate in the AKLNG project consistent with the State Gas Share (which is the sum of the State's share of royalty-in-kind and "Tax as Gas").

Article 5 also describes that the State intends to enter into project implementation agreements with TransCanada, and an AGDC subsidiary to be created to hold and manage the State's ownership and participating interest in the project. It also provides for transparency through information flow to the State of Alaska, subject to confidentiality protections.

Article 6 describes the anticipated regulatory framework of the project. Article 6 sets out the project access and pro-expansion principles that all the parties have agreed to, as well as the process to obtain FERC confirmation of these principles.

Article 7 describes the necessity for the State, through Enabling Legislation, to establish and authorize its terms of participation in the project and acceptance of the State Gas Share.

Article 8 describes modifications to the State's royalty and gas production tax regime that all parties to the Heads of Agreement believe is necessary for Alaska natural gas to compete in world markets and for the project to be a success.

Article 9 discusses Producer payments in lieu of property taxes and project impact payments to offset increased services and other costs.

Article 10 acknowledges the necessity of State support in numerous areas, including permitting, infrastructure, and support for an export license.

Article 11 contains robust commitments to Alaska hire and content, and the parties' commitment to negotiate in good faith project labor agreements.

Memorandum of Understanding

In contrast to a Heads of Agreement, the Memorandum of Understanding (“MOU”) is a bi-lateral understanding, which outlines more specifically the terms and details of an agreement between two parties in anticipation of the parties entering into binding contracts within the scope of the larger project.

TransCanada has significant experience with respect to understanding the commercialization of Alaskan natural gas. It is the pre-eminent builder and owner of major pipelines in North America. The State and TransCanada both believe that TransCanada's participation in the AKLNG project on behalf of the State, but in a more traditional commercial agreement than it previously had with the State under the AGIA project, will provide substantial benefits to both parties.

Exhibit C of the MOU between the State and TransCanada describes in some detail the commercial terms under which TransCanada will participate in the AKLNG project and provide midstream services (Gas Treatment Plant and pipeline transportation) to the State for its State Gas Share.

Exhibit B of the MOU also describes the State's option to obtain up to 40% ownership participation in TransCanada's midstream project ownership entity.

While more detailed commercial contracts for ownership, financing, transportation and project services must be negotiated as the project advances, the MOU, and particularly its Exhibits, set out the essential terms of the midstream services TransCanada will provide, including key processing and transportation commercial terms, pipeline and Gas Treatment Plant expansion terms, as well as the State's option to obtain up to 40% ownership participation in TransCanada's midstream project ownership entity.

Once enabling legislation is approved, the parties can take the next critical step in development to refine the costs, technical engineering, regulatory and fiscal challenges the project faces – challenges that must be addressed before the parties commit the billions of dollars necessary to complete the project.

HOA

January 14, 2014

HEADS OF AGREEMENT

By and Among

**THE ADMINISTRATION OF
THE STATE OF ALASKA**

**ALASKA GASLINE
DEVELOPMENT CORPORATION**

TRANSCANADA ALASKA DEVELOPMENT INC.

EXXONMOBIL ALASKA PRODUCTION INC.

CONOCOPHILLIPS ALASKA, INC.

BP EXPLORATION (ALASKA) INC.

FOR THE ALASKA LNG PROJECT

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THIS HEADS OF AGREEMENT is made this 14th day of January, 2014 (“Effective Date”) by and among:

- (1) The Administration of the State of Alaska, by and through the Commissioner of the Department of Natural Resources (“DNR”) and the Commissioner of the Department of Revenue (“Administration” or “Commissioners”);
- (2) Alaska Gasline Development Corporation (“AGDC”);
- (3) TransCanada Alaska Development Inc. (“TADI”);
- (4) ExxonMobil Alaska Production Inc. (“EMAP”);
- (5) ConocoPhillips Alaska, Inc. (“ConocoPhillips”); and
- (6) BP Exploration (Alaska) Inc. (“BP”).

The Administration, AGDC, TADI, EMAP, ConocoPhillips, and BP may hereinafter be collectively referred to as the “Parties” and separately as a “Party”. TADI, EMAP, ConocoPhillips, and BP (and their respective Affiliates participating in the Alaska LNG Project) and AGDC are collectively referred to as the “Alaska LNG Parties” and EMAP, ConocoPhillips and BP (and their respective upstream Alaska Affiliates) are collectively referred to as the “Producer Parties”.

RECITALS

- (A) Each of the Producer Parties owns natural gas resources on the Alaska North Slope and each Producer Party has explored and pursued, individually and jointly, various means of bringing ANS natural gas to market in previous projects, including the Alaska Natural Gas Transportation System project, liquefied natural gas export projects, gas-to-liquids conversion projects, the Alaska Gas Producers Pipeline Team project, the Denali Gas Pipeline project and the Alaska Pipeline Project.
- (B) The Parties are currently undertaking work to evaluate a project to potentially commercialize ANS natural gas resources through the Alaska LNG Project (as that term is defined below). The Administration and AGDC believe that the Alaska LNG Project may provide an opportunity for AGDC to provide gas to Alaskans at the lowest possible cost.
- (C) In October 2011, in response to changed circumstances, including a substantial increase in U.S. shale gas reserves in the Lower 48 states, Governor Parnell requested the Licensee under the Alaska Gasline Inducement Act (“AGIA”) to work cooperatively with the Producer Parties to evaluate the economic feasibility of an LNG alternative, which would include LNG export volumes and the opportunity for deliveries of in-state gas. The Licensee (an Affiliate of TADI) had previously (with an Affiliate of ExxonMobil) been focused on a project to transport Alaska gas to Alberta for further delivery to North American markets.

- (D) In January of 2012, the CEOs of ExxonMobil, BP and ConocoPhillips met with Governor Parnell and on March 30, 2012, the CEOs issued a letter informing the Governor of their progress and planned activities in pursuit of an LNG export project utilizing ANS gas resources, which would also provide the opportunity for in-state gas deliveries, and noting the importance of establishing appropriately structured and stable fiscal arrangements (see Exhibit I-A).
- (E) In October of 2012, ExxonMobil, BP, ConocoPhillips and TADI informed the Governor of the significant early efforts to progress what is now known as the Alaska LNG Project, including the establishment of an integrated team with specialized skills to further pursue and advance the work. Numerous potential options to commercialize the ANS gas resources were analyzed due to the complex nature of developing the vast ANS gas resources. The letter also described the challenges facing development of the Alaska LNG Project and the need for a healthy, long-term oil business, underpinned by a competitive fiscal framework (see Exhibit I-B).
- (F) In February of 2013, the Producer Parties and TADI agreed on a concept for the potential Alaska LNG Project and began to undertake initial Pre-FEED activities which is an important and substantial step in major project developments. Those Parties are currently considering ramping up Pre-FEED activities (see Exhibit I-C).
- (G) The Alaska LNG Parties are currently negotiating commercial agreements for Pre-FEED to move to the next phase of the Alaska LNG Project based on the concept development and successful 2013 summer field season work performed by the Producer Parties and TADI.
- (H) Funding by the State of Alaska ("State") under AGIA has supported some key activities including the 2013 summer field season. Now that it is evident that an LNG export project (along with the opportunity for in-state delivery of gas), rather than a pipeline to Alberta, Canada, is the leading case to commercialize ANS gas resources, the Administration, the AGIA Licensee and TADI have concluded that it is appropriate to transition from the AGIA license and to focus efforts on the Alaska LNG Project.
- (I) In 2013, the Legislature passed and Governor Parnell signed legislation for AGDC to pursue an in-state gas pipeline, the Alaska Stand Alone Pipeline ("ASAP") project. The Administration and AGDC intend that AGDCS would participate in the Alaska LNG Project, and AGDC would establish membership on the board of AGDCS which may include the Commissioners, to the extent permitted by law. The Administration also intends to seek funding for AGDC (or AGDCS, when formed) participation in the Alaska LNG Project. AGDC will also continue to pursue the ASAP project. AGDC and the Alaska LNG Parties intend to cooperate with one another on technical and engineering matters to achieve efficiencies and share technical data to effectively manage resources.
- (J) The Alaska LNG Parties wish to ramp up the Pre-FEED phase of the Alaska LNG Project, which is estimated to cost over \$400 million, but are seeking understandings with the State concerning the State's and the Producer Parties' desire for State participation in the Alaska

LNG Project, consistent with certain fiscal and commercial principles described in this HOA, prior to ramping up the Pre-FEED phase. Similarly, the Administration is seeking understandings from the Alaska LNG Parties to advance the Alaska LNG Project.

- (K) The Administration has determined that State participation in the Alaska LNG Project could yield significant overall benefits for the State. The Parties recognize that enabling legislation to facilitate State participation in advancing an LNG export project to develop Alaska gas resources is desirable.
- (L) The Producer Parties and the Administration have developed guiding objectives to progress the Alaska LNG Project, which include creating an environment to: (a) enable the Alaska LNG Project to be completed in an expedited and reasonable fashion; (b) maximize the value of ANS resources to the State, Producer Parties and other stakeholders; and (c) expand the contribution of ANS resource development to Alaska's economic growth.
- (M) The Parties have entered into discussions as to how they may cooperate with each other to jointly pursue the Alaska LNG Project. Accordingly, this HOA establishes certain guiding principles and understandings to support advancement of the Alaska LNG Project and that would lead to important commercial and operating arrangements between the Parties.

NOW, THEREFORE, the Parties agree as follows:

ARTICLE 1: DEFINITIONS

1.1. *“Affiliate”* means,

- a. In relation to TADI or a Producer Party, any company, corporation, partnership or other legal entity (in this definition, each such entity and each Party are sometimes referred to as a “Company”), that:
 - (i) Is directly or indirectly owned or controlled by such Party;
 - (ii) Directly or indirectly owns or controls such Party; or
 - (iii) Is directly or indirectly, owned or controlled by a Company that also, directly or indirectly, controls such Party; and
- b. In relation to AGDC, those State entities that otherwise meet the requirements of the definition above, when acting only in the State's proprietary capacity, including other independent State corporations.

For the purpose of this definition, a Company is directly owned or controlled by another Company that owns or controls shares or other interests carrying in the aggregate more than 50 percent of the voting rights exercisable at a general, shareholders, or members meeting of the first-mentioned Company, or the right to appoint or dismiss a majority of the directors thereof, or the power to direct or cause the direction of the management or policies through the ownership of securities, by contract or otherwise. A Company is indirectly owned or controlled by a

Company or Companies (the “parent Company or Companies”) if a series of Companies can be specified, beginning with the parent Company or Companies and ending with the particular Company, so related that each Company of the series, except the parent Company or Companies, is directly controlled by one or more of the Companies in the series.

1.2. “*AGDC*” means the Alaska Gasline Development Corporation as set forth in AS 31.25.

1.3. “*AGDCS*” means a wholly-owned subsidiary of AGDC to be formed for the specific purpose of participating in the Alaska LNG Project.

1.4. “*Alaska LNG Project*” means, collectively, the project components consisting of the LNG Plant, the Gas Pipeline, the Gas Treatment Plant, the PBU Gas Transmission Line, and the PTU Gas Transmission Line.

1.5. “*Alaska North Slope*” or “*ANS*” means that part of Alaska that lies north of 68 degrees North latitude.

1.6. “*Enabling Legislation*” means legislation enacted by the Alaska Legislature that has become effective as provided in AS 01.10.070, and that at a minimum:

- a. Provides for a confidential process that would allow the Administration to participate in developing terms for contracts associated with a project, including but not limited to (1) project-enabling contracts, which contracts are subject to subsequent legislative ratification, (2) the front-end engineering and design work agreements and (3) other project implementation contracts; and
- b. Allows for contract terms which could include terms that address: State participation; a State share of gas (royalty in kind and gas in lieu of production taxes); property taxes; upstream costs and lease expenditures; in-state gas deliveries; ownership interests; operating agreements; gas treatment, transportation, and liquefaction services agreements; State LNG or gas sales contracts; contract duration and durability; periodic project reporting; Alaska hire; Alaska contracting; and other terms necessary to advance projects to commercialize Alaska’s natural gas resources.

1.7. “*FEED*” means a front-end engineering and basic engineering design study, which, without limitation, would include the following:

- a. Sufficiently detailed basic engineering packages for the components of the Alaska LNG Project and a contracting strategy to enable contractor bidding for the Engineering, Procurement and Construction (“EPC”) contracts;
- b. A resourcing, commissioning and start-up plan;
- c. The finalization of the key project agreements required to implement the Alaska LNG Project;
- d. A technical and commercial definition of the Alaska LNG Project;

- e. A detailed update of the Alaska LNG Project economics, financing and commercial assumptions, including an updated estimate of capital costs sufficient for a final investment decision;
- f. A final assessment of environmental, social and health impacts of the Alaska LNG Project;
- g. Long-lead procurement activities;
- h. Other activities necessary to enable a final investment decision to be taken by the Alaska LNG Parties such as but not limited to financing, permitting and registration; and
- i. The bidding and internal selection of EPC contractors, as applicable.

The detailed work plan and deliverables of FEED will be developed during Pre-FEED.

1.8. **“FEED Agreement”** means the agreement or agreements under which FEED would be undertaken for the Alaska LNG Project.

1.9. **“FERC”** means the Federal Energy Regulatory Commission.

1.10. **“Gas Pipeline”** means the Alaska LNG Project component consisting of a main natural gas pipeline from the outlet flange of the GTP on the Alaska North Slope to the inlet flange of the LNG Plant, including the structures, equipment, underlying land rights and all other associated systems, but excluding any other gas pipelines taking gas from any Offtake Point.

1.11. **“Gas Treatment Plant”** or **“GTP”** means the Alaska LNG Project component consisting of facilities, including the structures, equipment, underlying land rights and all other associated systems and related activities to receive natural gas from the PBU Gas Transmission Line, the PTU Gas Transmission Line, or other facilities, treat the natural gas to pipeline quality specifications, dispose of or deliver by-products, deliver liquid products for further transportation, and deliver treated natural gas for transportation through the Gas Pipeline.

1.12. **“HOA”** means this Heads of Agreement, including its Recitals and Appendix A.

1.13. **“Initial Project Term”** has the meaning provided in Section 9.2.

1.14. **“Joining Party”** has the meaning provided in Section 13.6.

1.15. **“Licensee”** means, collectively, TransCanada Alaska Company, LLC, a Delaware limited liability company, and Foothills Pipe Lines Ltd.

1.16. **“LNG”** means any hydrocarbon or mixture of hydrocarbons consisting predominantly of methane in a liquid state at or below its boiling point at a pressure of approximately one atmosphere.

- 1.17. **“LNG Plant”** means the Alaska LNG Project component consisting of an LNG plant facility, including the structures, equipment, underlying land rights and all other associated systems, for pre-processing and liquefaction of natural gas, and storage and off-loading of liquefied natural gas, including terminal facilities and auxiliary marine vessels.
- 1.18. **“MOU”** has the meaning provided in Section 5.4.
- 1.19. **“NGA Section 3”** has the meaning provided in Section 6.1.
- 1.20. **“Offtake Point(s)”** has the meaning provided in Section 6.5.
- 1.21. **“PBU Gas Transmission Line”** means the Alaska LNG Project component consisting of a natural gas transmission line from the outlet flange of the Prudhoe Bay Unit Central Gas Facility to the inlet flange of the GTP including the structures, equipment, underlying land rights and all other associated systems.
- 1.22. **“PILT”** means a payment in lieu of property tax as set forth in Section 9.3.1.a.
- 1.23. **“Pre-FEED”** means pre-front-end engineering and design work and activities on the approved concept in preparation for FEED for the Alaska LNG Project, including technical and execution studies and optimization and FEED / EPC invitation to tender development including sufficient design detail and environmental field work to support FERC applications and filings.
- 1.24. **“PTU Gas Transmission Line”** means the Alaska LNG Project component consisting of a natural gas transmission line from the outlet flange of the Point Thomson Unit production facility to the inlet flange of the GTP including the structures, equipment, underlying land rights and all other associated systems.
- 1.25. **“RIK”** means royalty in kind as provided in Section 8.1.1.
- 1.26. **“RIV”** means royalty in value as provided in Section 8.1.1.
- 1.27. **“State Gas Share”** means, collectively, the State’s share of RIK gas and Tax as Gas as provided in Section 8.3.
- 1.28. **“Tax as Gas” or “TAG”** has the meaning provided in Section 8.2.
- 1.29. **“Transfer”** means any sale, assignment, contribution or other disposition (a) by an Alaska LNG Party of all or part of its participating interests in the Alaska LNG Project or (b) by an Alaska LNG Party or its Affiliates of all or part of its rights and obligations in any ANS lease from which gas would be produced into the Alaska LNG Project, to a transferee (including without limitation by merger or consolidation).
- 1.30. **“Transmission Lines”** means the Alaska LNG Project components consisting of the PBU Gas Transmission Line and the PTU Gas Transmission Line.

ARTICLE 2: PRINCIPLES

2.1 This HOA sets out the guiding principles upon which the Parties wish to progress work for evaluation of the Alaska LNG Project. It is understood and agreed that if the Legislature passes Enabling Legislation that is acceptable to the Parties, the Parties would negotiate contracts, which would incorporate the principles contained in Articles 5 through 12. In entering into this HOA, it is the intent of the Parties that this HOA provide Alaskans with a roadmap for how the Parties intend to advance the Alaska LNG Project.

ARTICLE 3: BENEFITS OF THE ALASKA LNG PROJECT

3.1 A successful Alaska LNG Project would provide substantial benefits to the State, Alaska LNG Parties, and other stakeholders, including, but not limited to:

- a. The opportunity for competitively priced, reliable in-state gas supply;
- b. Commercialization of ANS gas resources through the sale of LNG to global markets and access for in-state gas demand;
- c. Creating jobs for Alaskans in the exploration, development, production and transportation of natural gas;
- d. Increased opportunities for Alaska-based contractors;
- e. Additional revenues to the State and Alaska LNG Parties; and
- f. Infrastructure for development of onshore and offshore state and federal lands to enhance Alaska oil and gas exploration and production opportunities for the Producer Parties and other explorers and producers.

ARTICLE 4: ALASKA LNG PROJECT WORK

4.1 Execution of the Alaska LNG Project involves a phased development process. To date, one or more of the Alaska LNG Parties have accomplished certain work, and the Alaska LNG Project is poised to ramp up the Pre-FEED phase. The purpose of Pre-FEED is to progress technical work that would provide each of the Alaska LNG Parties with sufficient information for evaluating the technical, cost and schedule aspects of the Alaska LNG Project. The Pre-FEED work, when used with other information regarding the commercial, legal, economic, financial, marketing, timing and other necessary aspects of the Alaska LNG Project, will assist the Alaska LNG Parties in determining how to proceed with the phased project development process, including whether to proceed to the FEED phase of the Alaska LNG Project. The FEED phase would involve the expenditure of billions of dollars to progress the Alaska LNG Project to the final investment decision (“FID”).

4.2 Subject to the Alaska LNG Parties executing a new commercial agreement for ramping up Pre-FEED work, the Alaska LNG Parties will continue that work through completion,

provided Enabling Legislation acceptable to the Parties is passed and other support referenced in Article 10 is maintained or progressed. The Pre-FEED work is expected to ramp up in the second quarter of 2014, and is anticipated to take between 18 and 24 months to complete, with a determination on proceeding to the FEED phase expected to occur within approximately 36 months after ramp up of Pre-FEED. During Pre-FEED, the Alaska LNG Parties will continue to provide regular Alaska LNG Project updates to the Administration, the Alaska Legislature and the public.

4.3 Upon completion of Pre-FEED deliverables for the Alaska LNG Project, the Alaska LNG Parties will decide whether to proceed with FEED for the Alaska LNG Project. Each Alaska LNG Party will make that decision in its sole discretion.

4.4 A decision by the Alaska LNG Parties to advance the Alaska LNG Project to FEED is subject to, among other things:

- a. Enabling Legislation and other laws and regulations of the State to advance the Alaska LNG Project, including necessary fiscal and commercial terms as set forth in this HOA;
- b. Approval by the management or approving authority of the Parties, as applicable;
- c. Determination of Alaska LNG Project component sizing, gas quality specifications, and expansion terms; and
- d. Execution of contracts as contemplated by Section 7.4, as well as gas treatment, transportation, and liquefaction services agreements, and the execution of the FEED Agreement.

4.5 During the Pre-FEED phase, each of the Producer Parties and the State would initiate preliminary, individual LNG or gas sales or shipping efforts. During the FEED phase, each of those Parties would seek to execute individual LNG (or gas) sales and shipping agreements.

4.6 During the Pre-FEED phase, the Parties would work to develop mutually agreeable gas offtake and balancing agreements to facilitate gas offtake by each of the Parties with regard to their rights to capacity in the Alaska LNG Project.

ARTICLE 5: STATE PARTICIPATION IN THE PROJECT

5.1 The Administration has determined that State participation in the Alaska LNG Project could yield significant overall benefits for the State, including:

- a. Protecting the State's mineral interests and maximizing the value of its resources;
- b. Improving alignment of interests between the State and the Producer Parties;

- c. Transparency for the Administration (when acting in its proprietary capacity in regards to the State Gas Share, and with relevant confidentiality protections) regarding the Alaska LNG Project;
- d. Access and pro-expansion principles for the Alaska LNG Project;
- e. Creating an opportunity for delivering gas to Alaskans;
- f. An opportunity for additional State revenues; and
- g. Reducing valuation and other potential disputes between the Producer Parties and the State.

5.2 The Producer Parties believe that State participation in key aspects of the Alaska LNG Project, including its investment and sharing of other costs, in balance with a share of gas from the Alaska LNG Project, is a significant enabler of a successful project of that size and complexity. Accordingly, the Producer Parties support State participation in the Alaska LNG Project.

5.3 Subject to the passage of Enabling Legislation and execution of project-enabling contracts, including satisfactory arrangements for disposition of the State's share of LNG, the State would participate in the Alaska LNG Project at a participating interest share in the Alaska LNG Project components consistent with the State Gas Share in those components. The Parties anticipate the State's participating interest share in each component would be approximately 20% to 25%.

5.4 The Administration intends to enter into project implementation agreements with one or more parties to hold the State's participating interest in the Alaska LNG Project, which could include TADI and AGDC, recognizing that the Administration has entered a memorandum of understanding ("MOU") with TADI and certain of its Affiliates. The Administration, with the concurrence of TADI and certain of its Affiliates, plans on publicly releasing the MOU contemporaneously with the public release of this HOA.

5.5 During the Pre-FEED phase, the Producer Parties, TADI, and AGDC (including representatives of the Administration when those representatives are acting in a proprietary capacity in regard to the State Gas Share, and with relevant confidentiality protections) would negotiate in good faith to enter into the agreements for FEED for the Alaska LNG Project. To support those negotiations, the Alaska LNG Parties would provide for reasonable disclosure of information related to the State's participating interest in the Alaska LNG Project to representatives of the Administration when those representatives are acting in a proprietary capacity in regard to the State Gas Share, and with relevant confidentiality protections.

5.6 The Alaska LNG Parties support the principle of providing access to information related to the components of the Alaska LNG Project in which that Alaska LNG Party has an ownership interest or, prior to ownership being established, a participating interest. With respect to AGDC, access to information would include access for those representatives of the Administration associated with AGDC when those representatives are acting in a proprietary capacity in regard to the State Gas Share, and with relevant confidentiality protections. Disclosure of such

information would be in accordance with applicable law, subject to relevant confidentiality protections and sufficient to allow each Alaska LNG Party to meet its reasonable business needs, including obligations to customers, in respect of the Alaska LNG Project. The Alaska LNG Parties would negotiate in good faith to implement these principles in subsequent project implementation agreements.

ARTICLE 6: REGULATORY FRAMEWORK, ACCESS AND EXPANSION

6.1 The Parties have discussed a tailored regulatory framework for the Alaska LNG Project under Section 3 of the Natural Gas Act, 15 U.S.C. § 717b (“NGA Section 3”), and recognize the availability of this framework to meet the needs of all Parties.

6.2 During Pre-FEED, the Alaska LNG Project will be advanced under NGA Section 3.

6.3 Access and Pro-Expansion Principles.

- a. The Parties will advance development of a commercial structure that is consistent with the regulatory framework.
- b. AGDC and TADI shares of capacity in the Alaska LNG Project components would be owned and operated, in whole or in part, on terms that would provide access for third-parties, for both in-state and export volumes. These access terms would be developed by the State, AGDC and TADI and would utilize contract carriage principles.
- c. Each Producer Party’s individual capacity in the Alaska LNG Project components would be owned and operated on a proprietary basis.
- d. The Parties would jointly develop acceptable terms regarding firewalls and FERC adjudication, where appropriate.
- e. Expansion terms consistent with the “Pro-Expansion Principles” set forth in Appendix A would also be agreed by the Parties.

6.4 Prior to entering FEED, the following will be pursued in interactions with the FERC:

- a. The Parties will support, including holding discussions (as permitted by FERC rules) with the FERC staff regarding the application and implementation of NGA Section 3 to the Alaska LNG Project.
- b. Based on those discussions, the Parties will meet to consider the joint filing of a petition for declaratory order with FERC to confirm these principles.

Each Party must be satisfied with the commercial terms and regulatory framework prior to the execution of the FEED Agreement for the Alaska LNG Project.

6.5 To assist in addressing in-state gas demand, the Alaska LNG Project would include at least five in-state offtake points (“Offtake Point(s)”), with the specific locations determined by the Administration in consultation with AGDC. Any Party may deliver gas to an Offtake Point. Any facilities taking gas from an Offtake Point, including facilities associated with odorization, reduction of gas pressure, or control of gas heating value or gas quality, are not part of the Alaska LNG Project and would need to be funded, installed and maintained by third parties.

6.6 Third-party gas to be delivered into any component of the Alaska LNG Project must meet the gas quality specifications of the applicable Alaska LNG Project component, and must not adversely affect the cost of service, technical aspects or LNG quality from the Alaska LNG Project facilities.

ARTICLE 7: GENERAL ENABLING LEGISLATION

7.1 Alignment among parties is critical to the success of a project of the scope and magnitude necessary to develop Alaska gas resources. General legislation to allow State participation and gas share in any such project is critical for the progression and implementation of a project. Depending on the scope, size and other factors associated with a particular project, the level of State participation may vary. For projects that qualify under the general law, a mechanism to provide project-enabling terms would be needed.

7.2 To facilitate Alaska gas development and help advance the Alaska LNG Project and other qualifying projects, the Administration will submit proposed general legislation to the Alaska Legislature in the 2014 regular legislative session to:

- a. Establish terms for State participation and State gas share consistent with Articles 5, 8 and 9;
- b. Provide for a confidential process, subject to subsequent legislative ratification, to develop terms for project-enabling contracts; and
- c. Allow for inclusion of contract terms which could include and address: State participation; a State share of gas (royalty in kind and gas in lieu of production taxes); property taxes; upstream costs and lease expenditures; in-state gas deliveries; ownership interests; operating agreements; gas treatment, transportation, and liquefaction services agreements; State LNG or gas sales contracts; contract duration and durability; periodic project reporting; Alaska hire; Alaska contracting; and other terms necessary to advance projects to commercialize Alaska’s natural gas resources.

7.3 During the term of the HOA, and to the extent permitted by law, each Party agrees to include and support the provisions of Articles 5 through 12, inclusive, in any future legislation or contractual arrangements that could apply to the Alaska LNG Project.

7.4 Depending on the enactment of Enabling Legislation acceptable to the Parties, the Administration and the Alaska LNG Parties would use commercially reasonable efforts to negotiate project-enabling contracts consistent with that legislation and this HOA.

7.5 The Administration will submit to the Alaska Legislature, and the Parties will support, to the extent permitted by law, legislation in a 2015 legislative session to ratify any Alaska LNG Project-enabling contracts developed by the Parties under the process authorized in the 2014 legislation and address any other matters the Parties mutually agree are necessary for advancement of the Alaska LNG Project.

7.6 The Administration recognizes that projects proposed under the general law will have different needs, reflecting the complexity and magnitude of the investments required for the project, and that the corresponding duration of any such project contracts may vary.

ARTICLE 8: ROYALTIES AND PRODUCTION TAXES

8.1 Royalty.

8.1.1 Alaska law, as set forth in AS 38.05.182(a), provides that “royalties on oil and gas shall be taken in kind unless the commissioner determines that the taking in money would be in the best interest of the state.” Thus, absent a finding by the Commissioner of DNR that the taking of its royalty in money (commonly referred to as royalty in value, or “RIV”) for royalties generated as a result of the Alaska LNG Project would be in the best interest of the State, the royalties generated as a result of the Alaska LNG Project must be taken in kind (“RIK”).

8.1.2 The November 2013 “Alaska North Slope Royalty Study” performed by Black & Veatch (“Royalty Study”) at the direction of the Commissioner of DNR identifies several potential issues relating to the State taking RIK for an LNG export project including the State’s current lack of LNG marketing expertise.

8.1.3 Subject to the passage of Enabling Legislation and execution of project-enabling contracts including satisfactory arrangements for disposition of the State’s share of LNG:

8.1.3.1 The State will take as RIK the full royalty percentage permitted under the leases from which gas will be produced into the Alaska LNG Project for the Initial Project Term.

8.1.3.2 At least 36 months prior to the expiration of the Initial Project Term, the State will provide the Producer Parties advance written notice of any intention to elect to receive RIV, which election could only take effect after the Initial Project Term. If the State so elects to receive its royalty share in value at any time after the Initial Project Term, the relevant parties will need to agree on the terms for royalty valuation and corresponding impacts, if any, on the ownership in and capacity access to the Alaska LNG Project components.

8.1.3.3 The State and Producer Parties will modify any sliding scale royalty and net profits share royalty provisions in State leases from which gas will be

produced into the Alaska LNG Project to provide for a fixed percentage royalty and the State will take as RIK as provided in Section 8.1.3.1.

8.2 Gas Production Tax. With regard to gas production taxes, which, assuming Enabling Legislation is enacted, could be taken by the State either in cash or as gas (the latter being referred to herein as “Tax as Gas” or “TAG”), and subject to Section 8.1.3.1 and execution of project-enabling contracts including satisfactory arrangements for disposition of the State’s share of LNG:

- 8.2.1 For the Alaska LNG Project contemplated under this HOA, the State will provide each Producer Party with the right to exercise a one time, irrevocable election, with no sunset requirement, to make gross gas production tax payments that are equal to a fixed percentage of that Producer Party’s taxable gas. Each Producer Party’s fixed percentage gas payments will be made in lieu of the production tax payments due by that Producer Party on gas produced under Alaska law.
- 8.2.2 Upon an election by a Producer Party under Section 8.2.1, the State will receive a fixed percentage of that Producer Party’s gas at a fixed rate of its taxable gas, delivered to the State at each delivery point into a Transmission Line. The Parties anticipate that TAG would be approximately 7% to 13%.
- 8.2.3 The TAG would be structured to allow the gas volumes to remain bookable as reserves by the Producer Parties.

8.3 State Gas Share

- 8.3.1 All RIK gas and TAG provided by the Producer Parties and received by the State, (collectively “State Gas Share”), will be delivered with custody and title transferring to the State at the delivery point into a Transmission Line.
- 8.3.2 The State will be responsible for disposition of the State Gas Share beyond the delivery points, including the State share of LNG made from the State Gas Share.
- 8.3.3 Consistent with advice from antitrust counsel, the Producer Parties are willing, in conjunction with a fiscal arrangement for an Alaska LNG Project under which the State has a State Gas Share, to agree that each Producer Party, if asked by the State, would offer to negotiate separately with the State in good faith to enter into an agreement with the State regarding the purchase or other disposition of a portion of the LNG that is made from the State’s deliveries of natural gas to the Alaska LNG Project, with each Producer Party negotiating a potential agreement regarding the purchase or other disposition of a portion that equals or exceeds that Producer Party’s respective proportionate share of the total of the Producer Party’s capacities (i.e., exclusive of the capacity owned or used by the State) in the LNG Plant component of the Alaska LNG Project.

ARTICLE 9: OTHER PROJECT-ENABLING TERMS

9.1 Alignment of the Parties is critical to the success of an LNG export project of this scope and magnitude. Alaska LNG Project fiscal terms are based on the principle of a fair and transparent balance of risk and reward.

9.2 Project-enabling contracts negotiated between the Parties will need to be of sufficient duration to support investment decisions of the Alaska LNG Parties, to permit realization of a competitive economic return, to enable necessary financing, and to support gas and LNG sales agreements (“Initial Project Term”).

9.3 The Parties intend that the following fiscal terms, subject to them being commercially acceptable to all Parties, would be included in the project-enabling contracts for the Alaska LNG Project.

9.3.1 Subject to consultation by the Administration with local governments:

- a. Payments in lieu of property tax (“PILT”) would be paid by the Alaska LNG Parties on each component of the Alaska LNG Project. For the Alaska LNG Project, the PILTs would be on a unit rate per throughput basis (e.g., cents per thousand cubic feet, etc.) and could be level or escalating dollar payments for the Alaska LNG Project components.
- b. The Parties would establish a series of impact payments to be paid by the Alaska LNG Parties to help offset increased service and other costs borne by the State and local governments during construction of the Alaska LNG Project.

9.3.2 Other terms that the Parties may mutually agree are necessary to support a commercially viable qualified project, including provisions to make the contractual terms predictable and durable.

ARTICLE 10: ADDITIONAL STATE SUPPORT FOR THE ALASKA LNG PROJECT

10.1 The Administration acknowledges that State support for the Alaska LNG Project is needed in a number of areas to progress a successful Alaska LNG Project. These include, but are not limited to, support for:

- a. Use of eminent domain rights to facilitate implementation of the Alaska LNG Project design, permitting, financing, funding approval, construction and operation of the Alaska LNG Project, including drafting, introducing and supporting legislation where necessary;
- b. Any DOE export license application and any related DOE regulatory process for the Alaska LNG Project;

- c. Appropriations and permitting for the construction of necessary in-state infrastructure (e.g., roads, bridges), including drafting, introducing and supporting legislation;
- d. Other local, State and federal permitting requirements for the Alaska LNG Project;
- e. A healthy, long-term oil business; and
- f. Other areas, including drafting, introducing and enacting legislation in the 2015 legislative session to clarify State regulatory authority, if and to the extent required to effect the Alaska LNG Project regulation provided in Article 6 (e.g., amendment of the Alaska Right-of-Way Leasing Act to address common carrier pipeline and other requirements, if required).

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 is 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 marine 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.

ARTICLE 12: OTHER UNDERSTANDINGS

12.1 The Parties recognize that this HOA does not address all of the matters that must be dealt with or all of the terms and conditions needed to finalize project-enabling contracts among the Parties concerning a potential project. The Parties intend to work together and use commercially reasonable efforts to reach agreement on additional terms and conditions acceptable to all of the Parties.

12.2 In addition, the Parties will reasonably support cooperation between the Alaska LNG Project and the ASAP project on a technical and engineering basis so the State's options to connect the ANS gas resource to Alaskans are efficiently progressed.

ARTICLE 13: MISCELLANEOUS

13.1. Term and Termination

- a. This HOA will become effective as of the Effective Date.
- b. This HOA terminates December 31, 2015, unless extended by mutual agreement of the Parties.

13.2. Amendment and Modification

No amendment, modification, supplement or variation of this HOA will be effective unless in writing and signed by or on behalf of each Party.

13.3. Survival

The provisions of Articles 1 (Definitions) and 13 (Miscellaneous) will continue in full force and effect notwithstanding termination of this HOA.

13.4. No Liability or Damages

- 13.4.1. Nothing in this HOA requires any Party to reach or execute any legally binding or enforceable agreement(s) or to refrain from engaging in any business whatsoever, nor does any Party have any liability in connection with the subject matter of this HOA.
- 13.4.2. No Party is liable to any other Party or its Affiliates, officers, employees or agents, for any direct, indirect, special, incidental, consequential or punitive damages or otherwise liable for any loss of actual or potential profits, loss of production or business interruption arising out of or in any way connected with this HOA, including any breach of the terms of this HOA.

13.5. Governing Law

The laws of the State of Alaska, without giving effect to its conflicts of laws principles, will govern all questions concerning the construction, validity and interpretation of this HOA.

13.6. Transfer and Joinder

If an Alaska LNG Party, or its Affiliate, makes a Transfer during the term of this HOA, then the transferee ("Joining Party") may join as a Party to this HOA by executing a written instrument acceptable to the Parties. A Joining Party is considered both an Alaska LNG Party and a Party under this HOA.

13.7. Counterparts

This HOA may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of the HOA.

IN WITNESS WHEREOF, the Parties caused this HOA to be executed by their duly authorized representatives on the date below their respective signatures but effective on the Effective Date.

State of Alaska Department of Natural Resources

By: [Signature]
Printed Name: Joe Bulash
Title: Commissioner
Date: 1/14/14

State of Alaska Department of Revenue

By: [Signature]
Printed Name: Angela M Rodell
Title: Commissioner
Date: 1/14/2014

Alaska Gasline Development Corporation

By: [Signature]
Printed Name: DANIEL FAUSKO
Title: PRESIDENT
Date: 1-14-14

TransCanada Alaska Development Inc.

By: _____
Printed Name: _____
Title: _____
Date: _____

By: _____
Printed Name: _____
Title: _____
Date: _____

Heads of Agreement

January 14, 2014

IN WITNESS WHEREOF, the Parties caused this HOA to be executed by their duly authorized representatives on the date below their respective signatures but effective on the Effective Date.

State of Alaska Department of Natural Resources

By: _____

Printed Name: _____

Title: _____

Date: _____

State of Alaska Department of Revenue

By: _____

Printed Name: _____

Title: _____

Date: _____

Alaska Gasline Development Corporation

By: _____

Printed Name: _____

Title: _____

Date: _____

TransCanada Alaska Development Inc.

By: *[Signature]*

Printed Name: Tony Palmer

Title: President

Date: January 14, 2014

By: *Annie Belecki*

Printed Name: Annie C. Belecki

Title: Assistant Secretary

Date: January 14, 2014

Heads of Agreement

January 14, 2014

ExxonMobil Alaska Production Inc.

By: *[Signature]*

Printed Name: R.L. Briles *cy*

Title: President

Date: 1/13/2014

ConocoPhillips Alaska, Inc.

By: _____

Printed Name: _____

Title: _____

Date: _____

BP Exploration (Alaska) Inc.

By: _____

Printed Name: _____

Title: _____

Date: _____

Heads of Agreement

January 14, 2014

ExxonMobil Alaska Production Inc.

By: _____

Printed Name: _____

Title: _____

Date: _____

ConocoPhillips Alaska, Inc.

By: *V.E. Johnson*

-BJS Printed Name: TROND-ERIK JOHANSEN

Title: PRESIDENT

Date: JANUARY 14, 2014

BP Exploration (Alaska) Inc.

By: _____

Printed Name: _____

Title: _____

Date: _____

BJS 1/14

Heads of Agreement

January 14, 2014

ExxonMobil Alaska Production Inc.

By: _____

Printed Name: _____

Title: _____

Date: _____

ConocoPhillips Alaska, Inc.

By: _____

Printed Name: _____

Title: _____

Date: _____

BP Exploration (Alaska) Inc.

By: 

Printed Name: Janet Weiss

Title: President

Date: January 14, 2014

Appendix A
Pro-Expansion Principles

The following principles are for the Alaska LNG Project regulated under NGA Section 3. These principles apply to any component of the Alaska LNG Project.

A.1 Alaska LNG Project Expansion. The potential expansion of any component of the Alaska LNG Project (excluding the modification of an installed Alaska LNG Project liquefaction train, or installation of a new liquefaction train) would be addressed in the agreements to be developed during Pre-FEED, reflecting the following principles.

- A.1.1 Following start-up of the Alaska LNG Project, any Alaska LNG Party may initiate the process for an expansion of any component of the Alaska LNG Project in which that Alaska LNG Party has an interest, unless that expansion would:
- a. Materially and adversely affect or alter the Alaska LNG Project facilities or operations, including technical aspects, or scheduling or quality of deliveries from the Alaska LNG Project facilities;
 - b. Diminish service to the existing shippers or users of the Alaska LNG Project;
 - c. Cause the Alaska LNG Project to be in violation of any applicable environmental or safety laws or regulation; or
 - d. Cause a violation of the Alaska LNG Project right-of-way agreements or any other contractual obligations with respect to the Alaska LNG Project facilities.

Subject to Section A.2 regarding modification of an existing LNG Plant liquefaction train and Section A.3 regarding installation of new LNG Plant liquefaction trains, if an Alaska LNG Project expansion is proposed, all Alaska LNG Parties with an interest in the Alaska LNG Project component being expanded will have the right, but not any obligation, to participate in the proposed expansion (“Expansion Party”). Any Expansion Party may request additional volumes thereby increasing the capacity of the proposed expansion. If, however, as a result of the review of the design and cost of the proposed expansion, all the Expansion Parties determine that they wish to reduce the size of the proposed expansion, then they may do so. An Alaska LNG Party’s ownership interest in the post-expansion Alaska LNG Project component would be equivalent to the proportion of its capacity to the aggregate capacity on the post-expansion Alaska LNG Project component.

Expansions can proceed if they meet the criteria in Section A.1.1 above.

- A.1.2 The Expansion Parties will pay all costs related to the expansion and will have access to and share the incremental capacity developed by the expansion, provided terms related to impacts on fuel use for an expansion would be addressed during Pre-FEED by the Parties. Those Alaska LNG Parties that do not elect to participate

in the proposed expansion (“Non-Expansion Parties”), will be kept whole and will not bear any costs related to the expansion, will not have access to or share in the incremental capacity developed by the expansion, and will not bear any risks or adverse impacts of the expansion or that may result from the expansion, including construction, operation, commercial viability of the capacity expansion or level of capacity utilization.

- A.1.3 Both the Expansion Parties and the Non-Expansion Parties will share in the benefits of an expansion of an Alaska LNG Project component (other than access to or sharing of the expansion capacity). For example, if incremental capital costs of expansion on a unit of capacity basis are lower than the average pre-expansion capital costs per unit of capacity, the capital cost would be equalized, which could include some reallocation of past costs. In addition, both Expansion Parties and Non-Expansion Parties would share proportionately in any reduction in unit operating costs.

A.2 Modification of Installed Liquefaction Trains. The principle for any modification (e.g., debottlenecking) of the installed LNG Plant liquefaction trains is that any proposal for the modification would be subject to agreement of the Alaska LNG Parties with an interest in the LNG Plant liquefaction trains, as would be set forth in the LNG Plant operating agreement(s) among those Alaska LNG Parties.

A.3 New Liquefaction Train Installation Principles. The potential installation of a new liquefaction train would be addressed in the agreements to be developed during Pre-FEED, reflecting the following principles.

- A.3.1 Following start-up of the Alaska LNG Project, any Alaska LNG Party with an interest in the LNG Plant may initiate the process to install a new LNG Plant liquefaction train, unless that installation would:
- a. Materially and adversely affect or alter the Alaska LNG Project facilities or operations, including technical aspects, or scheduling or quality of deliveries from the Alaska LNG Project facilities;
 - b. Diminish service to the existing shippers or users of the Alaska LNG Project;
 - c. Cause the Alaska LNG Project to be in violation of any applicable environmental or safety laws or regulations; or
 - d. Cause a violation of the Alaska LNG Project right-of-way agreements or any other contractual obligations with respect to the Alaska LNG Project facilities.
- A.3.2 All Alaska LNG Parties with an interest in the LNG Plant will have the right, but not any obligation, to participate in a proposed liquefaction train installation at the LNG Plant location. Any Alaska LNG Party electing to participate in the new installation may request additional volumes, thereby increasing the capacity of the

proposed liquefaction train installation. If, however, as a result of the review of the design and cost of the new proposed installation, all of the Alaska LNG Parties that have elected to participate in the new liquefaction train installation determine that they wish to reduce the size of the new proposed installation, then they may do so. Each Alaska LNG Party that participates in a new proposed liquefaction train installation would have an ownership interest in that new liquefaction train equivalent to its equity interest in that new liquefaction train.

Installation of a new liquefaction train can proceed if it meets the criteria in Section A.3.1. above.

A.3.3 Any use, including expansion, of existing LNG Plant property, utilities, storage and marine terminal in conjunction with a new liquefaction train installation will be subject to the expansion principles set forth in Section A.1 above.

A.4 Alaska LNG Project Gas Quality. Notwithstanding anything to the contrary, all gas entering any component of the Alaska LNG Project must meet the gas quality specification applicable to that Alaska LNG Project component.

EXHIBIT I

***Exhibit I-A
CEO Letter***

CEO Letter to Governor Parnell dated March 30, 2012



March 30, 2012

Governor Sean Parnell
550 West 7th Avenue, Suite 1700
Anchorage, Alaska 99501

Dear Governor Parnell,

Our three corporations, collectively and individually, value our relationship with Alaska and believe that its citizens across the state, as well as our shareholders around the world, share a common interest in responsible resource development. We write today to inform you of our progress in working together on the next generation of North Slope resource development.

Alaska's vast North Slope holds over 35 trillion cubic feet of discovered natural gas. To date, this gas has been used to enhance North Slope oil production, adding several billion barrels to Prudhoe and Kuparuk recoveries. However, under the right business climate, the full commercial potential of this world-class resource can be unlocked. North Slope gas commercialization will bring new job opportunities, increased state revenues, reliable in-state energy supplies and new exploration opportunities, which will further the development of North Slope oil and gas. This will be key toward reaching your goal of one million barrels of oil per day through the Trans-Alaska Pipeline System.

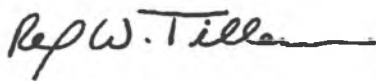
Serious discussions between our companies have taken place over the past several months, along with the Alaska Pipeline Project (APP) parties who are supporting the AGIA License. We have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework. As a result of the rapidly evolving global market, large-scale liquefied natural gas (LNG) exports from south-central Alaska will be assessed as an alternative to gas line exports through Alberta. In addition to broadening market access, a south-central Alaska LNG approach could more closely align with in-state energy demand and needs. We are now working together on the gas commercialization project concept selection, which would include an associated timeline and an assessment of major project components including in-state pipeline routes and capacities, global LNG trends, and LNG tidewater site locations, among others.

Commercializing Alaska natural gas resources will not be easy. There are many challenges and issues that must be resolved, and we cannot do it alone. Unprecedented commitments of capital for gas development will require competitive and stable fiscal terms with the State of Alaska first be established. Appropriately structured, stable fiscal arrangements have opened new opportunities around the world, and will play a pivotal role in making Alaska competitive in the global market and unlocking the economic potential of North Slope resources.

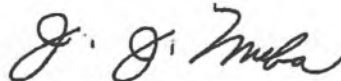
Point Thomson is an excellent example of a challenged, world-class resource. With approximately 25% of known North Slope natural gas, Point Thomson development is an important element in consideration of North Slope gas commercialization. However, economic models must span decades into an uncertain future to estimate economic returns. Your Administration has taken the lead in forging a Point Thomson settlement that will bring long-term resources, revenues and jobs to help Alaska's economy. With settlement now finalized, our companies are moving forward, as participating co-venturers, with the initial development phase at Point Thomson with confidence that North Slope gas development will ultimately bring the Point Thomson resource to market.

We agree the next generation of North Slope resource development is achievable, working together with the APP parties, as well as with the State of Alaska. Thank you for your leadership and your confidence in us to take on these challenges. We join you in a vision of prosperity and promise. There is much work to do and opportunities yet to discover.

Sincerely,



Rex Tillerson



Jim Mulva



Bob Dudley

Exhibit I-B
Alaska LNG Project Update Letter

Alaska LNG Project Sponsor Letter to Governor Parnell dated October 1, 2012

- Project Update



October 1, 2012

Governor Sean Parnell
550 West 7th Avenue, Suite 1790
Anchorage, Alaska 99501

Dear Governor Parnell:

On March 30, 2012, ExxonMobil, ConocoPhillips and BP submitted a letter informing you of progress in working together on the next generation of North Slope resource development. Since that time, the three producer companies and TransCanada, through its participation in the Alaska Pipeline Project (APP), have maintained momentum and executed important early work to select leading concepts for a potential project. We are writing to update you on the progress that has been made to date.

We established an integrated team, depicted on Attachment 1, committing significant resources and the efforts of over 200 professionals to date to progress this work. This allowed us to combine our respective talents and experience to advance a collective understanding of what would be required for liquefied natural gas (LNG) exports from Southcentral Alaska. Our team has advanced extensive work to refine and understand the opportunities and challenges associated with North Slope natural gas development.

Our companies bring together specific expertise in Arctic operations, pipeline design and construction, and in LNG plant design and operation. Since our joint work began at the end of March, we have built upon more than \$700 million in past work by our collective companies, including the joint Alaska Gas Producer Pipeline Team effort in 2001-02, the Denali Project, and APP (including the State's contribution through AGIA). As a result, our work on an LNG development project has been advanced to a new level of understanding. Specifically, the focus of our work includes:

- Developing a design basis for the pipeline, including areas of continuous and discontinuous permafrost
- Investigating multiple ways to remove and dispose of CO₂ and other contaminants
- Assessing use of existing and addition of new Prudhoe Bay field facilities
- Mapping multiple pipeline routing variations
- Assessing multiple pipeline sizes
- Providing for at least five in-state gas off-take points
- Completing preliminary geohazard and marine analysis of 22 LNG site locations
- Developing a design basis for the required LNG tanker fleet
- Evaluating multiple LNG process design alternatives
- Confirming a range of gas blends from the Prudhoe Bay and Point Thomson fields can generate a marketable LNG product

We have narrowed the broad range of alternative development concepts and assessed major project components, including the gas pipeline, gas treatment to remove CO₂ and other impurities, natural gas liquefaction, LNG storage, and marine terminal facilities as described on Attachment 2. Individually,

each of these components would represent a world-class project. Combined, they result in a mega-project of unprecedented scale and challenge; up to 1.7 million tons of steel, a peak construction workforce of up to 15,000, a permanent workforce of over 1,000 in Alaska, and an estimated total cost in today's dollars of \$45 to \$65+ billion.

Additional accomplishments include TransCanada's recently completed non-binding solicitation of interest in accordance with AGIA. TransCanada has publicly reported interest from potential shippers and major players from a broad range of industry sectors and geographic locations. Additionally, TransCanada, on behalf of the APP parties, has advised that a cooperative framework has also been established with the Alaska Gasline Development Corporation for information exchange.

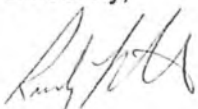
We are encouraged by the synergies and efficiencies identified by our integrated team. While good progress has been made, significant environmental, regulatory, engineering and commercial work remains to reach upcoming decisions to bring North Slope gas to market. A diagram indicating work plans and key decision points is provided on Attachment 3. This attachment describes ranges and durations for engineering and technical work. However, these durations could be extended by external factors including resolution of fiscal terms, regulatory and permitting delays, and legal challenges, among others. As the concept selection technical work reaches closure, additional commercial agreements as well as support from the State of Alaska will be required in order to progress this world-class opportunity.

This opportunity is challenged by its cost, scale, long project lead times, and reliance upon interdependent oil and gas operations with declining production. The facilities currently used for producing oil need to be available over the long-term for producing the associated gas for an LNG project. For these reasons, a healthy, long-term oil business, underpinned by a competitive fiscal framework and LNG project fiscal terms that also address AGIA issues, is required to monetize North Slope natural gas resources. The producers look forward to working with the State to secure fiscal terms necessary to support the unprecedented commitments required for a project of this scope and magnitude and bring the benefits of North Slope gas development to Alaska.

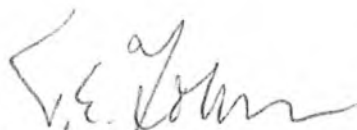
Our next steps are to complete the concept selection phase and work with the State to make meaningful progress on the items detailed above. This work is critical as we consider decisions to progress the next phases of an LNG development project.

Alaska's North Slope natural gas resources must compete in the global energy markets in order to deliver state revenues, in-state energy supplies, new job opportunities and other economic benefits to Alaskans. While North Slope gas commercialization is challenging, working together, we can maintain the momentum toward our shared vision for Alaska. We will continue to keep you advised of our progress and stand committed to work with the State to responsibly develop its considerable resources.

Sincerely,



Randy Broiles
ExxonMobil
Production Company



Trond-Erik Johansen
ConocoPhillips Alaska, Inc.



John Mingé
BP Exploration Alaska



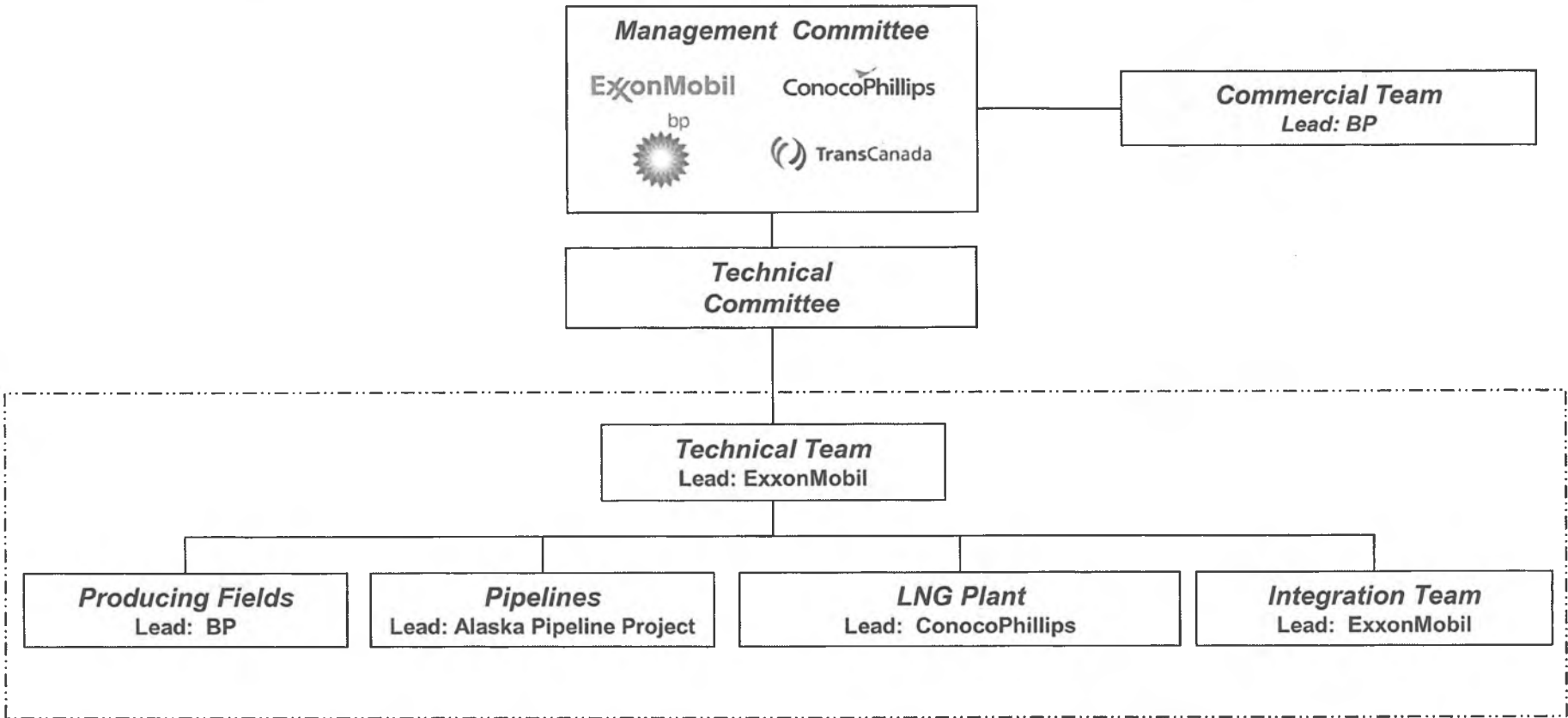
Tony Palmer
TransCanada

Attachments

Attachment 1

Southcentral Alaska LNG – Integrated Team

Page 30



Multimillion Dollar, Four-Company Effort – 125+ Employees, 100+ Contractors

- Joint work commenced March 31, 2012 after completion of the Pt. Thomson Settlement / joint work agreements
- Cooperative effort among the leading North Slope producers and a leading North American pipeline company
- Identified potentially viable LNG project options to monetize ANS natural gas
- Used company strengths, shared information / expertise; built upon past efforts, sought out new ideas

Attachment 2

Alaska Southcentral LNG – Project Concept Description

Liquefaction Plant

- Capacity: 15 – 18 million tonnes per annum (MTA)
3 trains (5-6 MTA / train)
- Potential areas: 22 sites assessed in Cook Inlet, Prince William Sound and other Southcentral sites
- Footprint: 400 - 500 acres
- Peak Workforce: 3,500 - 5,000 people
- Required Steel: 100,000-150,000 tons



Producing Fields

- ~35 TCF discovered North Slope resource
- Additional exploration potential
- Anchored by Prudhoe Bay and Pt. Thomson with ~20 years supply available
- Use of existing and new North Slope facilities
- Confirmed range of gas blends from PBU/PTU can generate marketable LNG product
- Peak Workforce: 500 – 1,500 people



Storage / Loading

- LNG Storage Tanks, Terminal
- Dock; 1 - 2 Jetties
- Design based on 15– 20 tankers
- Peak Workforce: 1,000-1,500 people



Gas Treating

- Located at North Slope or Southcentral LNG site
- Remove CO₂ and other gases and dispose / use
- Footprint: 150 - 250 acres
- Peak Workforce: 500 - 2,000 people
- Required Steel: 250,000 - 300,000 tons
- Among largest in world



Pipeline

- Large diameter: 42"- 48" operating at >2,000 psi
- Capacity: 3 - 3.5 billion cubic feet per day
- Length: ~800 miles (similar to TAPS)
- Peak Workforce: 3,500 - 5,000 people
- Required Steel: 600,000 - 1,200,000 tons
- State off-take: ~5 points, 300-350 million cubic feet per day, based on demand



Estimated Total Cost: \$45 – \$65+ Billion

Peak Construction Workforce: 9,000 – 15,000 jobs

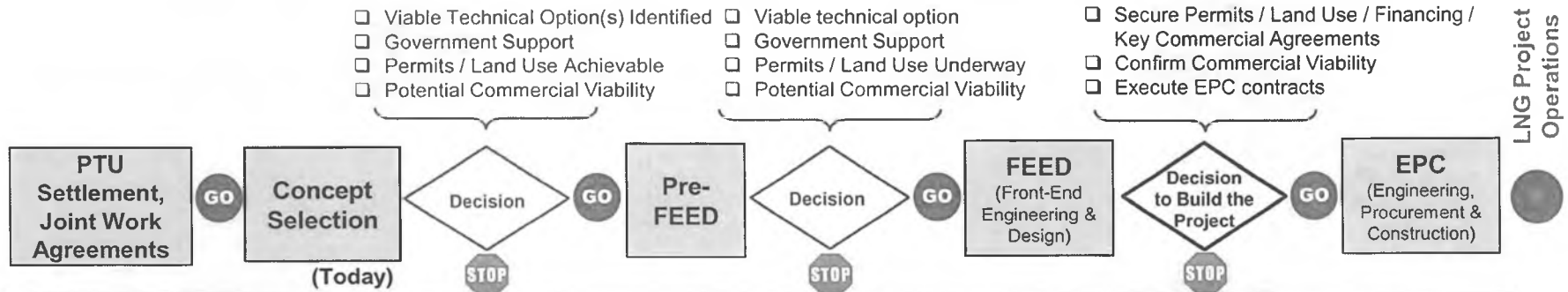
Operations Workforce: ~1000 jobs in Alaska

Descriptions and costs are preliminary in nature and subject to change. Cost range excludes inflation.

Attachment 3

Southcentral Alaska LNG – Work Plans / Key Decision Points

Requirements to Take Next Step:



Peak Staffing:	~200	400 - 500	500 - 1,500	9,000 - 15,000
Cost (\$):	Tens of Millions	Hundreds of Millions	Billions	Tens of Billions
Est. Engineering / Technical Duration*:	12 - 18 Months		2 - 3 Years	5 - 6 Years

Activities	Evaluate: <ul style="list-style-type: none"> • Range of technically viable options for major project components • Business Structure • In-state gas / export LNG demand 	Progress: <ul style="list-style-type: none"> • Preliminary engineering to refine concept • Business structure • Financing plan 	Complete: <ul style="list-style-type: none"> • Front-end engineering & design • Major contract preparation • Business structure • Financing arrangements 	Execute: <ul style="list-style-type: none"> • Final engineering • Financing • Procurement • Fabricate / Logistics / Construct • Prepare for Operations 	
	Solicit Interest of Others		Solicit Interest of Others		
	Establish Government Support and Advance Regulatory Issues: <ul style="list-style-type: none"> • Competitive oil tax environment; predictable / durable LNG project fiscal terms; AGIA issues • Assure ability to secure regulatory approvals / permits / land use • Environmental activities / Technical data collection • Stakeholder engagement • File DOE Export License 		Advance Gov't / Reg. Issues: <ul style="list-style-type: none"> • Key permit / land use approvals • Stakeholder engagement • Secure DOE Export License 		Complete Gov't / Reg. Issues: <ul style="list-style-type: none"> • Secure remaining construction / operating permits • Stakeholder engagement
		Start individual gas / LNG sales / shipping efforts	Execute individual gas / LNG sales / shipping agreements	Implement business structure & agreements	
	Screen commercial viability	Assess commercial viability	Confirm commercial viability	Commission / start-up	

* NOTE: Duration of various phases may be extended by protracted resolution of fiscal terms, permitting and regulatory delays, legal challenges, changes in commodity market outlook, time to secure long-term LNG contracts, labor shortages, material & equipment availability, weather, etc.

Exhibit I-C
Alaska LNG Project Concept Selection Letter

Alaska LNG Sponsor Letter to Governor Parnell dated February 15, 2013

- Concept Selection



February 15, 2013

Governor Sean Parnell
550 West 7th Avenue, Suite 1790
Anchorage, Alaska 99501

Dear Governor Parnell,

On October 1, 2012 we updated you on the progress ExxonMobil, ConocoPhillips, BP and TransCanada had made to advance North Slope natural gas development. At that time, we described our plans for progressing concept selection. Today, we are pleased to inform you we have completed the concept selection phase.

Attached is a summary of the major project components, including the gas pipeline, gas treatment facilities and the liquefaction, storage and terminal facilities. The project design also includes five off-take points along the pipeline route to ensure Alaskans access to a cleaner-burning and dependable energy source. Capacity ranges reflect the expected seasonal variability. The conceptual design reflects the integrated teamwork of over 300 people on behalf of our companies.

Our companies are now working toward the next decision points. As outlined in our letter of October 1, 2012, a competitive, predictable and durable oil and gas fiscal environment will be required for a project of this unprecedented scale, complexity and cost, to compete in global energy markets.

A successful Alaska LNG project would result in thousands of jobs and the opportunity for decades of domestically-produced natural gas for homes and businesses in Alaska. We remain committed to responsibly developing the State's considerable resources and will keep you advised of our progress. We also have plans to update the Legislature at a Lunch and Learn on February 19.

Sincerely,

Randy Broiles
ExxonMobil Production
Company

Trond-Erik Johansen
ConocoPhillips Alaska, Inc.

Janet Weiss
BP Exploration Alaska

Tony Palmer
TransCanada

Attachment

Proposed Alaska LNG Project Concept

Pipeline	Diameter: 42"
	Design Rate ¹ : 3 – 3.5 billion cubic feet
	Length: ~800 miles (primarily underground)
	Compressor Stations: up to 8
Gas Treatment Plant	Location: North Slope, near Prudhoe Bay
	Footprint: 150 – 250 acres
Liquefaction Plant	Capacity ¹ : 15 – 18 million tons per annum (MTA)
	Facility: 3 trains
	Footprint: 400 – 600 acres
Storage and Loading	LNG Storage Tanks: 2 tanks @ 160,000 cubic meters per tank
	Terminal: 1 loading jetty with 2 berths
State Off-takes	Off-takes: 5 points along pipeline route
	Design Rate: 250 – 500 million standard cubic feet per day, based on demand
Capital Investment	Estimate ² : \$45 – \$65 USD-Billion

¹ Capacity range reflects seasonal variability

² Does not include inflation

MOU

MEMORANDUM OF UNDERSTANDING

THIS MEMORANDUM OF UNDERSTANDING (the "MOU") is made effective and entered into this 12th day of December, 2013 (the "Effective Date"), by **TRANSCANADA ALASKA COMPANY, LLC** ("TC Alaska"), a Delaware limited liability company, **FOOTHILLS PIPE LINES LTD.** ("Foothills" and together with TC Alaska, the "Licensee"), a Canadian corporation, in their capacity as the Licensee under AGIA, **TRANSCANADA ALASKA DEVELOPMENT INC.** ("TADI"), a Delaware corporation, and **THE STATE OF ALASKA** (the "State") acting through the Alaska Commissioner of Natural Resources and the Alaska Commissioner of Revenue ("**Commissioners**") pursuant to their authority under Alaska Gasline Inducement Act ("**AGIA**"), AS 43.90.010 *et seq.*;

Recitals

1. The Alaska Legislature enacted AGIA in 2007 to encourage expedited construction of a natural gas pipeline that facilitates commercialization of North Slope oil and gas resources in the state to promote exploration and development of North Slope oil and gas resources in the state, to maximize benefits to the people of the state from the development of oil and gas resources in the state, and to encourage oil and gas lessees and other persons to commit to ship natural gas from the North Slope to a gas pipeline system for transportation to markets in this state or elsewhere.

2. On December 5, 2008, the Commissioners issued the AGIA license to Licensees. The Licensees, and subsequently with an affiliate of ExxonMobil, commenced to jointly develop the AGIA pipeline project in Alaska and Alberta as the Alaska Pipeline Project ("**APP**"). Over the following three years, the Licensee pursued the APP in compliance with AGIA requirements to timely conduct an initial binding open season and engage in the pre-filing process to prepare its project application to Federal Energy Regulatory Commission ("**FERC**") for a certificate of public convenience and necessity.

3. In October 2011, in response to changed circumstances in world gas markets, including a substantial increase in U.S. shale gas reserves and lower natural gas prices in the U.S., significantly higher natural gas prices in Asia and other world markets, and the projection that the U.S. will become a net exporter of natural gas, Governor Parnell requested the Licensee to work cooperatively with the Alaska North Slope oil producers (ExxonMobil, BP and ConocoPhillips, jointly "**ANS Producers**") to evaluate the economic feasibility of a liquefied natural gas ("**LNG**") alternative.

4. In response to the Governor's request, the Licensees requested a project plan amendment ("**PPA**") to the AGIA license to facilitate participation by the APP with the ANS Producers in a concept selection assessment of an LNG alternative specifically relating to gas pipeline facilities to deliver natural gas from the Alaska North Slope to the tidewater of south-central Alaska for in-state use and export. The Commissioners approved the Licensee's PPA authorizing the Licensee to participate in a concept selection process for the Alaska LNG Project with the ANS Producers. The Commissioners approved additional PPAs to facilitate the Licensee's continued participation with the ANS Producers in completion of the concept selection phase for the Alaska LNG Project.

5. The Licensee, through its affiliate, TADI, and the ANS Producers have selected a concept for the Alaska LNG Project and are preparing for the pre-FEED phase of the Alaska LNG Project.

6. The Commissioners have determined that in order to facilitate the financing and expedite the development and construction of the Alaska LNG Project it is desirable for the State to participate with the Licensee and the ANS Producers in the Alaska LNG Project. State participation in the Alaska

LNG Project is expected to yield significant benefits, including the alignment of interests, greater transparency for the State on the commercial terms of the project, and the reduction of disputes. As part of its participation in the Alaska LNG Project, the State would enter into certain commercial agreements with the Licensee, TADI and the ANS Producers, subject to legislative authorization for this purpose.

7. The Commissioners have determined that the State will benefit by entering into commercial arrangements with TADI for participation in the Alaska LNG Project. The Licensee's TADI's and its Affiliates' extensive pipeline experience and knowledge of northern pipeline conditions is an asset to the State's participation. The information gained and the assets developed by the Licensee and its Affiliates in developing the APP project under AGIA will significantly contribute to the development and construction of the Alaska LNG Project, and promote the State's objectives of facilitating construction of a natural gas pipeline that promotes exploration and development of oil and gas resources on the North Slope and maximizes benefits to the people of the State from the development of oil and gas resources.

8. The Commissioners have determined that it is in the State's interest to continue its relationship with the Licensee and its Affiliates as an experienced pipeline developer and to transition from the AGIA license to a commercial relationship between the State and TADI through TADI (an Affiliate of the Licensee) in relation to the Alaska LNG Project. To maintain project momentum and promote continued cooperation between the AGIA Licensee and the ANS Producers, the Commissioners, exercising their authority under AS 43.90.210, have approved the Licensee's request for PPA-1B for the Licensee's continued participation with the ANS Producers in preparation for the pre-FEED phase of the Alaska LNG Project and to prepare for the transition mentioned above. (Exhibit "A")

9. The Commissioners have engaged in discussions with the Licensee, TADI and the ANS Producers to determine commercial arrangements that would be feasible and desirable for the State to participate in the Alaska LNG Project. The Commissioners, TADI and the Licensee have determined that certain commercial arrangements are necessary in order for the State to participate with TADI to facilitate the Alaska LNG Project. The terms of those commercial arrangements are provided in the term sheets at Exhibit B and Exhibit C to this MOU. The Commissioners, TADI and the Licensee acknowledge that the terms provided in Exhibits B and C have no force or effect until the effective date of the Enabling Legislation (defined below) that authorizes the State to negotiate and execute the commercial agreements that are set out in the terms of the Exhibits to this MOU. The terms of commercial agreements that the State has discussed with ANS Producers to facilitate the State's participation in the Alaska LNG Project, are provided in separate documents and are not part of this MOU.

10. The Commissioners, TADI, and the Licensee agree that execution of the Transition Agreements (as defined below) will complete the transition of the relationship between the State, TADI, and the Licensee from AGIA to a commercial arrangement. Subject to Enabling Legislation, upon execution of the Transition Agreements, and finalization of commercial relations with ANS Producers for the Alaska LNG Project:

- a. TADI or its Affiliate would hold an ownership interest in the midstream portion of the Alaska LNG Project;
- b. The State would hold an option to acquire an equity interest in the TADI or the TADI Affiliate that will hold TADI's ownership interest in the Alaska LNG Project as identified in the Term Sheet at Exhibit B; and
- c. TADI or its Affiliate would provide gas processing and transportation services on the Alaska LNG Project for the State's share of gas as identified in the Term Sheet at Exhibit C.

11. The Commissioners have committed that after Enabling Legislation becomes effective and execution of the commercial agreements committing the ANS Producers to initiate the pre-FEED phase of the Alaska LNG Project, the Commissioners will initiate the process of making a determination for purposes of AS 43.90.240(a). Because it is not economically feasible that two large-scale pipeline projects will be developed concurrently to transport Alaska North Slope natural gas to market, the Commissioners have committed to consider the commercial agreements executed by and between the State, TADI and the ANS Producers for development of the Alaska LNG Project as material evidence that the Licensee's AGIA licensed project is uneconomic as provided in AS 43.90.240(a).

12. The Licensee has committed that upon the occurrence of the Trigger Event and the execution of the Transition Agreements, the Licensee will agree that the project licensed under the AGIA License is uneconomic within the meaning of AS 43.90.240(a).

13. The purpose of this MOU is to set out the Parties' agreement regarding the negotiation and execution of the Transition Agreements upon the occurrence of the Trigger Event, specifically –

- a. the Alaska LNG Project Equity Option Agreement; and
- b. the Alaska LNG Midstream Services Agreement.

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth, each Party to this MOU hereby agrees as set forth below.

ARTICLE 1 DEFINED TERMS

1.1 Defined Terms

The following definitions shall, for all purposes, unless otherwise clearly indicated to the contrary, apply to the capitalized terms used herein:

- (a) **"Affiliate"** means in relation to a Party any company, corporation, partnership or other legal entity (in this definition, each such entity and each Party are sometimes referred to as a "Company") which is:
 - (i) directly or indirectly, owned or controlled by such Party;
 - (ii) directly or indirectly owns or controls such Party; or
 - (iii) directly or indirectly, owned or controlled by a Company that also, directly or indirectly, controls such Party.

For the purpose of this definition, a Company is directly owned or controlled by another Company that owns or controls shares or other interests carrying in the aggregate more than 50 percent of the voting rights exercisable at a general, shareholders, or members meeting of the first-mentioned Company, or the right to appoint or dismiss a majority of the directors thereof, or the power to direct or cause the direction of the management or policies through the ownership of securities, by contract or otherwise. A Company is indirectly owned or controlled by a Company or Companies (the "parent Company or Companies") if a series of Companies can be specified, beginning with the parent Company or Companies and ending with the particular Company, so related that each Company of the series, except the parent Company or Companies, is directly controlled by one or more of the Companies in the series.

For the purpose of this definition, the definition of a State Affiliate includes the State of Alaska acting in its proprietary capacity, any State authority or independent public corporation of the State ("IPC"), any subsidiary corporations created by an IPC ("SIPC"), and the State governmental entity members of any such IPC and SIPC.

- (b) "AGIA" means the Alaska Gasline Inducement Act, AS 43.90, as well as the regulations promulgated thereunder.
- (c) "AGIA License" means the license dated December 5, 2008, as amended by project plan amendments approved on January 29, 2010, May 2, 2012, June 11, 2013 and December 12, 2013.
- (d) "AGIA Project Plan Amendment 1B" means the project plan amendment under the AGIA License approved by the Commissioners pursuant to AS 43.90.210 on December 12, 2013, (attached hereto as Exhibit "A").
- (e) "Alaska LNG Midstream Services Agreement" means a Precedent Agreement (or similar agreement), and a Firm Transportation Services Agreement entered into between TADI and the State containing the terms set out in Exhibit "C".
- (f) "Alaska LNG Project" means collectively, the PBU Gas Transmission Line, the PTU Gas Transmission Line, the Gas Pipeline, the Gas Treatment Plant, the LNG Plant, and the Marine Terminal. For the purposes of this definition:
 - (i) "PBU Gas Transmission Line" means a natural gas transmission line from the outlet flange of the Prudhoe Bay Unit Central Gas Facility to the inlet flange of the GTP;
 - (ii) "PTU Gas Transmission Line" means a natural gas transmission line from the outlet flange of the Point Thomson Unit production facility to the inlet flange of the GTP;
 - (iii) "Gas Treatment Plant" or "GTP" means those facilities and related activities required to receive natural gas from the PBU Gas Transmission Line, the PTU Gas Transmission Line, and/or other facilities, treat the natural gas to pipeline specifications, dispose of or deliver by-products, deliver liquid products for further transportation, and deliver treated natural gas for transportation through the Gas Pipeline;
 - (iv) "Gas Pipeline" means the main natural gas pipeline from the outlet flange of the GTP on the Alaska North Slope to the inlet flange of the LNG Plant located in South Central Alaska, which may have off-take points along the pipeline for deliveries of gas within the State of Alaska (Gas Pipeline refers to the main gas pipeline and does not include any gas lines downstream of any off-take point between the GTP and the LNG Plant);
 - (v) "LNG Plant" means the facility, including the structures, equipment, underlying land rights and all other associated systems, for pre-processing and liquefaction of natural gas, and storage, and off-loading of liquefied natural gas; and "Marine Terminal" means the terminal and those facilities required to receive LNG from the boundary of the LNG Plant for marine transportation, including auxiliary vessels used in the operation of the terminal.
- (g) "Alaska LNG Project Equity Option Agreement" means an agreement to be entered into between TADI and the State containing the terms set out in Exhibit "B".

- (h) **“ANS Producers”** has the meaning given in paragraph 3 of the recitals.
- (i) **“CSA”** means the Concept Selection Agreement for ANS Gas Development dated March 29, 2012 between TADI and the ANS Producers, as amended from time to time.
- (j) **“Commissioners”** has the meaning given in the preamble of this MOU.
- (k) **“Effective Date”** has the meaning given in the preamble to this MOU.
- (l) **“Enabling Legislation”** means legislation enacted by the Alaska Legislature that has become effective as provided under AS 01.10.070 , and that at a minimum:
 - (i) Authorizes the Commissioners to negotiate and enter into the Transition Agreements, and
 - (ii) Authorizes the Commissioners to negotiate and enter into commercial arrangements with the ANS Producers for the Alaska LNG Project;
 - (iii) Funds the State’s contingent and direct payment obligations for development costs under the Precedent Agreement and Article 4.2 of this MOU.
- (m) **“HOA”** means the Heads of Agreement to be executed between the State, TADI, the ANS Producers and Alaska Gasline Development Corporation.
- (n) **“MOU”** means this memorandum of understanding and the attachments hereto.
- (o) **“Operative Terms”** means the terms to be incorporated in the Transition Agreements set out in Exhibits “B” and “C”, as same may be modified as a result of the application of Article 2.1(e).
- (p) **“Parties”** means TransCanada Alaska Company, LLC., Foothills Pipe Lines Ltd., TransCanada Alaska Development Inc., and the State of Alaska.
- (q) **“Pre-FEED JVA”** means the Alaska LNG Project Pre-FEED Venture Agreement to be executed, after Enabling Legislation becomes effective, by the ANS Producers, TADI and Alaska Gasline Development Corporation on terms acceptable to the parties, as may be amended from time to time.
- (r) **“Precedent Agreement”** means the precedent agreement referred to in Alaska LNG Midstream Services Agreement Term Sheet attached hereto as Exhibit “C”.
- (s) **“Transition Agreements”** mean the Alaska LNG Project Equity Option Agreement and the Alaska LNG Midstream Services Agreement.
- (t) **“Trigger Event”** means the effective date of Enabling Legislation that the Licensee, TADI and the State determine to be acceptable. For purposes of determining whether the Enabling Legislation is acceptable, the Parties will evaluate whether the Enabling Legislation provides appropriate and sufficient authority to the State;
 - (i) to negotiate and execute the Precedent Agreement and the Alaska LNG Project Equity Option Agreement;
 - (ii) to negotiate the Firm Transportation Services Agreement; and

- (iii) to fund the State's contingent and direct payment obligations for development costs under the Precedent Agreement and Article 4.2 of this MOU.

1.2 Exhibits

The following exhibits are attached to and form part of this MOU:

Exhibit "A"	AGIA Project Plan Amendment #1B
Exhibit "B"	Alaska LNG Project Equity Option Agreement Term Sheet
Exhibit "C"	Alaska LNG Midstream Services Agreement Term Sheet

ARTICLE 2 TRANSITION AGREEMENTS

2.1 Negotiation of Transition Agreements

(a) The Parties and the ANS Producers have agreed that it is necessary and a condition subsequent for this MOU for the Legislature to enact Enabling Legislation. The State undertakes to seek Enabling Legislation.

(b) The Parties agree that they shall promptly proceed in good faith to negotiate the Transition Agreements, to be finalized and executed after the Trigger Event.

(c) The Parties acknowledge that the Operative Terms (as defined in Exhibits "B" and "C") set forth the understanding of the Parties as to the commercial principles set forth therein and, subject to Articles 2.1 (d) and (e) below, shall form the basis for negotiation of the Transition Agreements. The Parties acknowledge that the Operative Terms set forth in Exhibits "B" and "C" have been agreed by the Parties and that subject to Articles 2.1 (d) and (e) below, the provisions of the Transition Agreements shall be consistent with the commercial principles set out in the Operative Terms. Subject to Articles 2.1 (d) and (e) below, no Party shall negotiate any term in the Transition Agreements inconsistent with the Operative Terms. However, the Parties acknowledge and agree that Exhibits "B" and "C" do not contain all of the terms and conditions that would be included in the legally binding Transition Agreements between the Parties.

(d) The Parties agree to support the approval of the Operative Terms in the Enabling Legislation, but acknowledge that the Enabling Legislation may include authorizations or conditions that vary from or conflict with the Operative Terms. In such event, and if Parties agree to accept the Enabling Legislation, then the Transition Agreements will reflect the Enabling Legislation terms and conditions notwithstanding the Parties' acknowledgement in Article 2.1(c) above.

(e) The Parties acknowledge that insofar as the terms of the Heads of Agreement ("HOA"), the Pre-Feed JVA, or any future Alaska LNG agreement to which the SOA or an entity of the SOA (including AGDC) is a party or which the State has approved are at variance with the Operative Terms, the Operative Terms shall be deemed to be amended to the extent necessary to conform to the HOA, the Pre-Feed JVA, or other such agreements, as the case may be, notwithstanding the Parties' acknowledgements in Article 2.1(c) above.

**ARTICLE 3
TIMELINES**

3.1 Timeline Commitment

(a) TADI and the State shall use reasonable commercial efforts to finalize, execute and deliver the Alaska LNG Project Equity Option Agreement and the Alaska LNG Midstream Services Agreement as soon as commercially reasonable after the Trigger Event, not to exceed ninety (90) days after the Trigger Event, unless extended with the joint approval of the Parties.

(b) It shall be a condition precedent to the effectiveness of each Transition Agreement that each other Transition Agreement be fully executed and delivered to the applicable Parties.

3.2 Notice of Enabling Legislation. Within 30 days after the effective date of the Enabling Legislation each Party shall notify the other Parties in writing if the Enabling Legislation is not acceptable to it. If a Party fails to so notify the other Parties, then that Party shall be deemed to have given notice that the Enabling Legislation is acceptable.

**ARTICLE 4
TERM, TERMINATION AND REIMBURSEMENT**

4.1 Term and Termination

This MOU shall commence on the Effective Date hereof and shall terminate upon the earliest of:

- (a) execution and delivery of all of the Transition Agreements,
- (b) upon written notice from any Party pursuant to Section 3.2 that the Enabling Legislation is not acceptable;
- (c) upon written notice from one Party to the others if the Alaska LNG Project Equity Option Agreement has not been executed and delivered in accordance with Article 3;
- (d) upon written notice from one Party to the others if the Alaska LNG Midstream Services Agreement has not been executed and delivered in accordance with Article 3; or
- (e) one hundred twenty (120) days after the Trigger Event, unless extended with the joint approval of the Parties,
- (f) upon the last date that Enabling Legislation could be enacted in 2014 by the Legislature, but has not been enacted, or if enacted in 2014 and vetoed, the last date the veto could be overridden; or
- (g) July 31, 2014, unless extended with the joint approval of the Parties.

4.2 Development Cost Reimbursement

Provided the Enabling Legislation becomes effective:

(a) If this MOU is terminated for any reason other than pursuant to Section 4.1(a), State shall reimburse TADI for all the post-December 31, 2013 development costs plus an amount equal to the associated AFUDC, at a rate of 7.1%, net of AGIA reimbursement received and retained by the Licensees under AGIA Project Plan Amendment 1B, that have been incurred or committed to by TADI or its

Affiliates under the CSA and the Pre-FEED JVA, including but not limited to TADI's share of contract cancellation penalties and continued funding obligations under such agreements, through the date of termination.

(b) State obligation to reimburse TADI under this Section 4.12 shall be TADI's exclusive remedy in law and equity for such termination.

4.3 Survival. This Article 4 shall survive termination of the MOU.

ARTICLE 5 RELATIONSHIP OF THE PARTIES

5.1 Relationship of the Parties. Neither this MOU nor any other documentation or communication between the Parties shall constitute or create a joint venture, partnership, legal entity, or other similar business combination or arrangement between the Parties. Each Party shall act only on an individual and several basis. No Party shall have the right to act as an agent for or a servant or employee of the other Parties, to make commitments or assume obligations for and on behalf of the other Parties, or to bind the other Parties for any purpose whatsoever.

ARTICLE 6 NOTICES

6.1 Notices. Any and all notices between the Parties given under or in relation to this MOU shall be in writing and shall be deemed to have been given if personally delivered, delivered and confirmed by telecopier or like instantaneous transmission device, delivered by a reputable overnight delivery service, or sent by certified mail (postage prepaid, return receipt requested), addressed as follows:

If to the State:

Joe Balash
Commissioner, Department of Natural Resources
550 W. 7th #1400
Anchorage, AK 99501
Phone: 907-269-8431
Facsimile: 907-269-8918
joe.balash@alaska.gov

Angela Rodell
Commissioner, Department of Revenue
P.O. Box 110400
Juneau, AK 99811-0400
Phone: 907-465-2300
Facsimile: 907-465-2389
angela.rodell@alaska.gov

If to Foothills, TADI or TC Alaska

Anthony Palmer
Vice President, Major Projects Development
TransCanada PipeLines Ltd.
450-1st Street, S.W.
Calgary, AB T2P 5H1
Phone: 403-920-2035
Facsimile: 403-920-2318
tony_palmer@transcanada.com

With a copy to:

c/o TransCanada
450-1st Street, S.W.
Calgary, AB T2P 5H1
Attn: Corporate Secretary
Facsimile: 403-920-2327

Any Party may at any time or from time to time designate, by written notice to the other Parties, another address in lieu of the address specified above.

ARTICLE 7 GOVERNING LAW AND EFFECT OF MOU

7.1 Governing Law and Jurisdiction. This MOU shall be governed by and construed in accordance with the laws of the Alaska, not including Alaska's choice of law provisions, and the federal laws applicable therein. The Parties do hereby irrevocably and unconditionally submit to the exclusive jurisdiction of the courts of the State of Alaska in connection with any disputes or other matters arising out of or in connection with this MOU.

ARTICLE 8 MISCELLANEOUS

8.1 Assignment. Except in the case of an assignment by a Party to an Affiliate in which event the assigning Party shall remain liable, no Party shall have the right to assign this MOU or any interest in this MOU without the prior written consent of the other Party, which consent may be withheld in the other Party's sole, absolute and unfettered discretion.

8.2 Severability. If any provision of this MOU or the application thereof shall be found by any court of competent jurisdiction to be invalid, illegal, or unenforceable, to any extent and for any reason, and if, after good faith efforts to negotiate replacement provisions, the Parties agree that this MOU should not be voided, it shall be adjusted rather than voided in order to achieve the intent of the Parties. If the Parties agree that this MOU should not be voided, and the intent of the Parties can be achieved, then the remainder of this MOU and the application of such remainder shall not be affected thereby, and shall be enforced to the greatest extent permitted by law. Otherwise, this MOU shall terminate.

8.3 Non-Waiver. No failure or delay by any Party in exercising any right, power, or privilege granted hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power, or privilege hereunder.

8.4 Entire Agreement. This MOU constitutes the entire agreement between the Parties relating to the subject matter hereof, and it supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether oral or written, between the Parties with respect to the subject matter hereof.

8.5 Amendments. This MOU may not be modified or amended, in whole or in part, except by a supplemental written agreement signed by all Parties.

8.6 Construction. The Parties have participated jointly in the negotiation and drafting of this MOU. In the event an ambiguity or question of intent or interpretation arises, this MOU shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this MOU.

8.7 Counterparts; Multiple Originals. This MOU may be signed and delivered in counterparts with the same effect as if both Parties had signed and delivered the same copy, and when each Party has signed and delivered a counterpart, all counterparts together constitute one Agreement. Delivery of a copy of this Agreement by facsimile or other similar electronic means of communication is good and sufficient delivery.

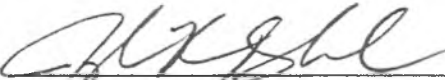
8.8 No Damages/Dispute Resolution. Except with regard to Section 4.2, no Party shall be liable to any other Party for damages of any kind or nature as a result of a breach or default of its obligations under this MOU. In the event of a breach, other than a breach of Section 4.2, the sole remedy available to a Party is the filing of an action for specific performance.

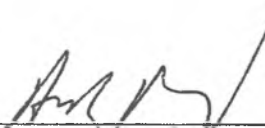
8.9 Article and Section Headings. The Article and Section headings used in this MOU have been inserted only for convenience to facilitate reference and shall not be determinative in construing the meaning, effect, or application, of any Article, Section, or provision hereof.


IN WITNESS WHEREOF, the Parties have signed this MOU as of the Effective Date.

THE STATE OF ALASKA

**TRANSCANADA ALASKA COMPANY,
LLC**

By: 
Name: COMMISSIONER - DNR
Title: JOE BALASH

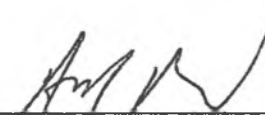
By: 
Name: Tony Palmer
Title: President

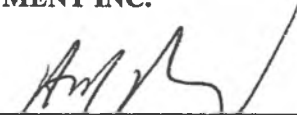
By: 
Name: Commissioner - Revenue
Title: Angela Rozell

By: _____
Name:
Title:

FOOTHILLS PIPE LINES LTD.

**TRANSCANADA ALASKA
DEVELOPMENT INC.**

By: 
Name: Tony Palmer
Title: President.

By: 
Name: Tony Palmer
Title: President

By: _____
Name:
Title:

By: _____
Name:
Title:

IN WITNESS WHEREOF, the Parties have signed this MOU as of the Effective Date.

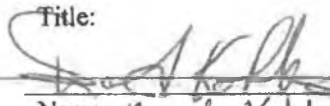
THE STATE OF ALASKA

TRANSCANADA ALASKA COMPANY,
LLC

By: _____
Name:
Title:

By: _____
Name:
Title:

By: _____
Name:
Title:

By: 
Name: David Kohlenberg
Title: Vice President.

FOOTHILLS PIPE LINES LTD.

TRANSCANADA ALASKA
DEVELOPMENT INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

By: 
Name: RON COOK
Title: VICE PRESIDENT - TAXATION

By: 
Name: RON COOK
Title: VICE PRESIDENT - TAXATION

LEGAL	
CONTENT	



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Natural Resources

Joe Balash, Commissioner

Department of Revenue

Angela Rodell, Commissioner

December 12, 2013

Mr. Tony Palmer
Vice President, Major Projects Development
TransCanada Pipelines Limited
450 1st Street S.W.
Calgary, Alberta, T2P-5H1 Canada

Re: Approval of AGIA Licensees' December 9, 2013 Request for Project Plan Amendments

Dear Mr. Palmer:

We are in receipt of the December 9, 2013 request by TransCanada Alaska Company, LLC ("TC Alaska") and Foothills Pipe Lines Ltd. (jointly, the "Licensees" or "TransCanada") for approval of project plan amendments ("PPA Request #1B") under section 210 of the Alaska Gasline Inducement Act.¹ As discussed herein, we grant approval of PPA Request #1B to the extent necessary to perform additional work from approximately January 1, 2014, through the end of June, 2014, as further described in the work plan, time line and budget set forth in Appendix A of your application ("2014 Work").

By way of background, in the past two years Governor Parnell has laid out important benchmarks in his State of the State addresses that have sought to maintain and accelerate progress on Alaska gas commercialization and to ensure commensurate commitment by the Licensees and the Alaska North Slope Producers (ExxonMobil, BP and ConocoPhillips, jointly "ANS Producers") in commercializing North Slope gas for the benefit of Alaskans. In his 2012 State of the State address Governor Parnell established an important benchmark by calling on the ANS Producers and the AGIA Licensees to align under an AGIA framework for timely commercialization of North Slope natural gas resources for use in-state and for markets beyond Alaska. In March 2012, the ANS Producers and AGIA Licensees met this benchmark.²

¹ AS 43.90, *et seq.* ("AGIA"). Under section 210 of AGIA, the Commissioners may approve a proposal by the AGIA Licensees to change their project plan if, among other things:

[T]he amendment or modification is necessary because of changed circumstances outside the licensee's control and not reasonably foreseeable before the license was issued. An amendment or modification approved under this section must be consistent with the requirements of AS 43.90.130 and, except for an amendment or modification required because of an order or requirement of a regulatory agency with jurisdiction over the project or by the Alaska Oil and Gas Conservation Commission, may not substantially diminish the value of the project to the state or the project's likelihood of success.

² In his 2012 State of the State address, the Governor, among other things, also called on the relevant parties to reach a settlement in the state's interests on the long-standing Point Thomson dispute and litigation, and to harden numbers and an associated work schedule on an Alaskan LNG project. As we stated in PPA #1A, these

Specifically, in a March 30, 2012 letter in response to Governor Parnell, the chief executive officers of the ANS Producers announced that they and TransCanada “have aligned on a structured, stewardable and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework.” The ANS Producers and TransCanada also stated that they “are now working together” with a focus on “large-scale liquefied natural gas (LNG) exports from south-central Alaska . . . as an alternative to gas line exports through Alberta.”

On May 2, 2012, in the “PPA 1 Approval”, we approved two project plan amendments in furtherance of the alignment of the ANS Producers and the AGIA Licensees. Our PPA 1 Approval permitted the inclusion in the project plan of a revised work plan, time line and associated budget to facilitate participation by the Licensees and the Alaska Pipeline Project (“APP”) in an alternative that entailed a gas pipeline and related midstream facilities to deliver ANS natural gas to an LNG terminal located in South-Central Alaska. (This alternative was referred to as the “SCLNG” project, but is now referred to as the “AKLNG” project.) In addition, in the PPA 1 Approval we extended by two years to October 31, 2014, the date by which Licensees were to submit to the FERC an application for a certificate of public convenience and necessity. Additionally, we made the PPA 1 Approval subject to a number of conditions. As more fully set forth in the PPA 1 Approval, the Licensees were required (1) to conduct a solicitation of interest in support of the LNG alternative, (2) to consult with the Alaska Gasline Development Corporation (“AGDC”) in the interest of prudently avoiding unnecessary and duplicative expenditure of state funds, and (3) to complete an inventory of work product related to the Alaska-Alberta Project.

Subsequently, on June 11, 2013 we issued the PPA 1A Approval, which noted that the Licensees had made significant progress toward meeting the PPA 1 Approval conditions. Our PPA 1A Approval addressed two project plan amendments. First, we approved the performance of field work on the midstream component of the project through December 15, 2013. Second, we approved an extension of the FERC filing deadline by one year to October 31, 2015.

The Licensees now seek what is in effect a limited extension of the project plan amendments that we approved in the PPA 1A Approval. Specifically, in PPA Request #1B, the Licensees state (at page 2) that the “APP Parties and the ANS Producers have selected a SCLNG concept, and are planning ongoing work to support a potential SCLNG [project], including preliminary Pre-FEED studies and planning and 2014 field survey planning work” for the midstream pipeline facilities (the “2014 Work”). The Licensees anticipate this 2014 Work will span from approximately January 1, 2014 to the end of June, 2014. The Licensees also state that while the 2014 Work is being carried out, it will be necessary for the Licensees to continue limited work on existing elements of the Alaska-Alberta project to preserve rights.

For the reasons explained below, we grant the Licensees’ request to perform the 2014 Work. Further, we approve the work plan, timeline and budget in Appendix A of PPA Request #1B that defines the 2014 Work.

benchmarks were met. Importantly, construction of the multi-billion dollar development at Point Thomson has begun with over 30 Alaska companies and 1,000 Alaskans working on this project.

First, the Licensees' request to perform the 2014 Work is consistent with important project benchmarks established by Governor Parnell in his January 16, 2013 State of the State address. There, Governor Parnell called on the ANS Producers and the Licensees to select a concept for the SCLNG project by February 15, 2013. This benchmark was met on February 15, 2013, when the ANS Producers and TransCanada sent a letter to Governor Parnell reporting that they had completed the concept selection phase of the SCLNG project.³ In his State of the State address, Governor Parnell also called on the ANS Producers and Licensee to "ensure a full summer of field season work will commence this year". PPA Request 1A met this benchmark by proposing to perform the 2013 Work, which we approved. The Licensees' PPA Request #1B builds on the 2013 Work by providing for the additional 2014 Work. These are positive developments that help to maintain and accelerate the SCLNG project momentum, and continue the progress made since the Governor's 2012 State of the State address called on the parties to align under an AGIA framework for timely commercialization of North Slope natural gas resources, for use in-state and for markets beyond Alaska.

Second, and as we noted in the PPA 1A Approval, ANS gas commercialization efforts remain in a transition phase with the ANS Producers, the APP Parties, and the Licensees continuing to work together on a single effort. This PPA-1B Approval supplements the PPA 1 and PPA-1A Approvals to amend further the licensed Alaska-Alberta project to include the 2014 Work and advance this transition, pave the way for more intensive work in the future, and keep the project's ultimate costs as low as possible by helping to avoid a delay in the development of the project.⁴ Consistent with this PPA-1B Approval, the Licensees may submit costs incurred as qualified expenditures in connection with the 2014 Work for reimbursement under AGIA for the period covered in the revised work plan, timeline and budget in PPA Request 1B.

Third, and as further explained in the PPA 1 Approval and reiterated in the PPA 1A Approval, we find that changed circumstances continue to exist for purposes of AS 43.90.210.⁵ For example, the current efforts to develop the SCLNG project represent the continued alignment of the Licensees and all three ANS Producers on a gas commercialization effort. This is important progress that is furthered by approval here of the requested project plan amendments.

Lastly, our PPA 1A Approval required that all work product related to the 2013 Work generated by or on behalf of APP or the Licensees be transferred to the Licensees by December 31, 2013. Further, our PPA 1A Approval required the Licensees to inventory and preserve all work product related to the 2013 Work, including both complete and incomplete work, and provide the inventory to the Commissioners. These conditions continue to apply with respect to

³ A copy of the February 15, 2013 Letter, and its attachments appears as Appendix C to PPA Approval 1A.

⁴ PPA 1B does not modify the Alaska-Alberta destination point under the AGIA License.

⁵ As noted in the May 2, 2012 PPA 1 Approval, such changed circumstances include: (1) a substantial increase in U.S. shale gas reserve estimate compared to when the License was issued; (2) continuing significantly higher natural gas prices in Asia and other world markets relative to U.S. prices, reflecting a higher oil to natural gas price ratio; (3) EIA's updated projection that the United States will become a net exporter of natural gas in the future; and (4) the continued interest of the ANS Producers in aligning their work efforts behind an LNG alternative, which was not foreseeable at the time of the AGIA Findings and the subsequent issuance of the License in 2008.

the 2013 Work, provided that the Licensees have until June 30, 2014 to satisfy the foregoing two conditions. With respect to the 2014 Work, the same conditions apply, except that the deadline for the transfer of the work product performed under this PPA 1B Approval is June 30, 2014.

CONCLUSIONS

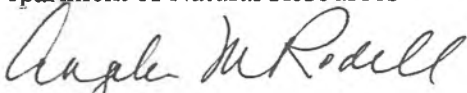
For the reasons discussed above, in the May 2, 2012 approval of PPA Request 1, and in the June 11, 2013 approval of PPA Request 1A, the Commissioners conclude as follows:⁶

1. PPA Request 1B consists of the request to perform the 2014 Work.
2. PPA Request 1B is necessary because of changed circumstances outside the Licensees' control and not reasonably foreseeable before the license was issued.
3. PPA Request 1B is consistent with the requirements of AS 43.90.130.
4. PPA Request 1B does not substantially diminish the value of the project to the state or the project's likelihood of success.
5. PPA Request 1B is approved as provided herein, subject to the conditions discussed herein.⁷

Sincerely,



Joe Balash
Commissioner
Department of Natural Resources



Angela Rodell
Commissioner
Department of Revenue

⁶ To the extent this determination does not address a specific statement or representation made in the PPA Request 1B, it should not be construed as agreement with any such statements or representations.

⁷ TransCanada asserts that PPA Request 1B contains proprietary information that is confidential under AGIA and that the Commissioners' March 15, 2012 determination of confidentiality under AGIA concerning PPA Request 1 supports treating PPA Request 1B on a confidential basis. To the extent that information in PPA Request 1B is proprietary, the Commissioners have determined that it is confidential under AGIA and the Commissioners' March 15, 2012 confidentiality determination.

**EXHIBIT B TO MEMORANDUM OF UNDERSTANDING
BETWEEN TRANSCANADA ALASKA COMPANY, LLC, FOOTHILLS PIPE LINES, LTD,
TRANSCANADA ALASKA DEVELOPMENT, INC.
AND THE STATE OF ALASKA**

ALASKA LNG PROJECT EQUITY OPTION TERM SHEET

This Term Sheet is attached to and made a part of the Memorandum of Understanding between the Parties and is subject to the terms and conditions of the MOU. Capitalized terms in this Term Sheet shall have the same meaning as in the MOU, unless the context suggests otherwise.

For purposes of the MOU, Section 2.1(c), the following sets forth the operative terms of this Equity Option Term Sheet (“Operative Terms”):

1. Upon execution of the Transition Agreements, TADI or its Affiliate would grant the State an exclusive and irrevocable right to acquire (“Option”), either for its own account or through a State Affiliate designated by the State acting through the Commissioners (the “Optionee”), up to 40% (see point 2 below) of the limited partnership interests in one or more limited partnerships (or similar entities; see point 10 below) (the “Limited Partnership”) that would hold an equity participation interest (see point 2 below) in the PTU Gas Transmission Line, PBU Gas Transmission Line, GTP, and Gas Pipeline (collectively, the “Midstream Component”).
2. The Parties intend that the Limited Partnership’s equity participation interest in the Midstream Component would be equal to the greater of (a) the State’s percentage share of the natural gas delivered to the Midstream Component by the ANS Producers from the State’s total in-kind or in-value interest in the ANS Producer’s natural gas production (whether royalty, production tax, or other gas in lieu of payment (collective, the “State’s Share”), or (b) 14.0%. The Optionee’s ownership interest in the Limited Partnership (maximum of 40%) would be subject to the condition that TADI’s “net-net” ownership interest in the Midstream Component, through the Limited Partnership, must not be less than 14.0%.
3. The Limited Partnership Agreement would provide that TADI or its Affiliate would own 100% of the general partner of the Limited Partnership, and such general partner would hold a minimal (less than 1%) interest in the Limited Partnership. The General Partner would make all decisions on behalf of the Limited Partnership, provided that the Equity Option Agreement will provide that certain fundamental decisions (e.g. change to distribution policy, winding-up of Limited Partnership, sale of significant interest of Limited Partnership in AK LNG) could not be made without the approval of the Optionee (before the option is exercised) or the Limited Partner (after the option is exercised). The General Partner would be entitled to recover all of its reasonable direct and indirect costs that are associated with it acting as the general partner.
4. The Option would be exercisable one time only before its expiration. The Option would absolutely expire on the earlier of (i) December 31, 2015) (ii) the date of execution of commercial agreements for the commencement of FEED for the Alaska LNG Project, or (iii) the occurrence of any of the termination events listed in section 9 of the Alaska LNG Midstream Services Agreement Term Sheet (Exhibit C to the MOU), unless otherwise agreed in writing between TC and the Optionee.

5. The Optionee would not be entitled, except in the sole discretion of TADI, to exercise the Option in the event the Optionee or the State is in current default under the Transition Agreements or the Pre-FEED JVA. The Optionee and State will be provided with notice of and opportunity to cure such default.
6. Conditions on the Optionee exercising the Option would be:
 - a. A true up by the Optionee to the Limited Partnership of contributions, within 30 days of the exercise of the Option, of amounts contributed by the Limited Partnership to the Alaska LNG Project, at cost plus Allowance for Funds Used During Construction ("AFUDC"), at a rate of 7.1% for the purpose of this calculation, from date of contribution by the Limited Partnership until date of payment.
 - b. Commencing on the date of exercise of the Option, Optionee shall be responsible for its share of the Limited Partnership's operating costs and Alaska LNG Project costs and assume its obligations and liabilities as a limited partner pursuant to the Limited Partnership Agreement.
 - c. TADI and the State shall use commercially reasonable efforts to finalize, execute and deliver the Alaska LNG Project Equity Option Agreement, including the agreement establishing the Limited Partnership itself, as soon as commercially reasonable after the Trigger Event, not to exceed 90 days after the Trigger Event, unless extended with the joint approval of the Parties. TC and the SOA agree such agreements are intended to be consistent with the Operative Terms.
7. Conditions on the State transferring its interest in the Limited Partnership would be:
 - a. The State would be prohibited from transferring directly or indirectly (including through a change of control) all or any part of its limited partnership interest in the Limited Partnership to an entity (other than an entity that is a passive investor whose principal business is not natural gas transmission or oil transmission) that owns an interest in or operates one or more natural gas or oil transmission lines in North America; provided that the foregoing prohibition would not apply to restrict transfer by the State to a State Affiliate or a government fund at all times wholly owned by the State, such as the State Department of Revenue Constitutional Budget Reserve Fund (a "Fund").
 - b. Any proposed transfer by the State, including any proposed transfer to a Fund, would be subject to commercially reasonable creditworthiness requirements to be established in the Alaska LNG Project Equity Option Agreement. Any proposed transfer by the State to any person or entity other than (i) a Fund, or (ii) a State Affiliate, and any proposed transfer by a Fund or a State Affiliate to any person or entity, would be subject to a right of first refusal ("ROFR") in favour of TADI. Until Final Investment Decision ("FID"), TADI would waive its ROFR right with respect to a transfer of an interest in the Limited Partnership by the State when it is an integral part of a transfer to the same transferee of an equal or greater % ownership interest in the LNG Plant Component of the Alaska LNG Project.

- c. Any proposed transfer by the State would be subject to applicable transfer requirements and restrictions of the Alaska LNG Project agreements that the Limited Partnership is party to.
8. The Parties acknowledge the confidentiality provisions of the Alaska LNG Project agreements to which the Limited Partnership may become a party may prohibit or restrict disclosure of Project information to the State. The parties agree to use reasonable efforts to allow for disclosure to the State (including on a restricted basis) as required under applicable Alaska law.
9. TADI and the State agree that the Limited Partnership documentation shall, to the extent permitted by applicable law (as set forth in the Alaska LNG Project Equity Option Agreement), expressly disclaim fiduciary duties of the parties. The Limited Partnership documentation shall provide commercially reasonable contractual protections for the limited partners' rights, including the obligations of good faith and fair dealing between the Parties.
10. The structure for the Limited Partnership will utilize a limited liability company or similar structure which is tax-efficient for TADI, unless the State and TADI mutually agree on a different ownership structure. In all cases, respective roles, responsibilities and obligations of TADI and the State as set forth in the Operative Terms will remain applicable to the ownership structure selected.
11. The Parties acknowledge that this Exhibit B to the MOU will become a public document once the MOU to which it is attached is executed by the Parties.
12. The Optionee has no right to assign or transfer all or any portion of the Option, except to a State Affiliate.

**EXHIBIT C TO MEMORANDUM OF UNDERSTANDING
BETWEEN TRANSCANADA ALASKA COMPANY, LLC, FOOTHILLS
PIPE LINES, LTD, TRANSCANADA ALASKA DEVELOPMENT, INC.
AND THE STATE OF ALASKA**

ALASKA LNG MIDSTREAM SERVICES TERM SHEET

This Term Sheet is attached to and made a part of the Memorandum of Understanding between the Parties and is subject to the terms and conditions of the MOU. Capitalized terms in this Term Sheet shall have the same meaning as in the MOU, unless the context suggests otherwise.

For purposes of the MOU, Section 2.1(c), the following sets forth the operative terms of this Midstream Services Term Sheet ("Operative Terms"):

	KEY ITEMS	TERMS & CONDITIONS
	Enabling Legislation	This Term Sheet provides a framework to guide the Parties in the event of the enactment of the Enabling Legislation to negotiate and enter into a Precedent Agreement ("PA") (or similar agreement), and to negotiate and enter into a Firm Transportation Services Agreement ("FTSA") (or similar agreement). Capitalized terms shall have the same meaning as the Definitions in the Memorandum of Understanding ("MOU") to which this is attached, unless the context suggests otherwise.
	Consistency with Commercial Agreements	This Term Sheet, in its entirety, is subject to consistency with the commercial agreements already entered into or to be entered into with the ANS Producers for the Alaska LNG Project including agreements set forth in Section 2.1(e) of the MOU.
1.	Purpose & Objectives	Establish terms and conditions under which Transporter will provide to Shipper (A) GTP processing and (B) transportation services on the PTU Gas Transmission Line, PBU Gas Transmission Line and Gas Pipeline from GTP to delivery points within Alaska and to the LNG Plant in South Central Alaska in the Alaska LNG Project. The PTU Transmission Line, PBU Transmission Line, and Gas Pipeline are collectively defined as the "Pipelines".
2.	Transporter	"Transporter" means TADI or an Affiliate designated by TADI
3.	Shipper	"Shipper" means State of Alaska or an Affiliate designated by the State of Alaska
4.	Proposed Process of Agreements	<ol style="list-style-type: none"> 1. This Term Sheet is attached and made a part of the MOU, and it is subject to the terms and conditions of the MOU. 2. As provided in Article 2.1 and Article 3.1 of the MOU, the Shipper and Transporter will use commercially reasonable efforts to negotiate and enter into a Precedent Agreement ("PA") that captures the Operative Terms of this Term Sheet. 3. The Parties intend that the PA will be replaced with a Firm Transportation Services Agreement ("FTSA"). The FTSA will contain terms established in the PA and other customary terms typically found in FTSA's for similar services. The FTSA would

		be executed only after execution is approved by the Alaska Legislature and such approval is enacted into law.
5.	Daily Contracted Capacity	FTSA, with two-part reservation/usage rates, for capacity equal to the product of (i) the State Gas Share as defined in the HOA and (ii) the respective design capacity of the PTU Transmission Pipeline, PBU Transmission Pipeline, GTP and the Gas Pipeline.
6.	Key Processing and Transportation Commercial Terms	<ol style="list-style-type: none"> 1. Contract Term <ul style="list-style-type: none"> • Initial Contract Term ("ICT") of 25 years following commercial In-Service Date ("ISD"). ICT to be confirmed by Transporter and the Shipper prior to agreement with ANS Producers for Front End Engineering and Design ("FEED") for the Alaska LNG Project, provided that the ICT will not be less than 20 years. • FTSA Renewal Right means the rights described below under FTSA Renewal Right. If Shipper does not exercise its FTSA Renewal Right to extend the ICT, Transporter will have a Put Option (as described below under Put Option). 2. Toll Structure <ul style="list-style-type: none"> • Levelized revenue requirement based on cost-of-service toll making principles. • Reservation rate, a fixed charge expressed in \$/mmBtu/month, will be designed to capture Depreciation Recovery, Return on Equity ("ROE"), Cost of Debt, Income Taxes, fixed Operations and Maintenance Costs ("O&M"), property taxes and other non-income related taxes. Reservation rate payments will be made by Shipper regardless of actual GTP and Pipelines utilization by Shipper. • Usage rate, a variable charge expressed in \$/mmBtu, will be designed to capture variable O&M Costs. 3. Capitalization Structure <ul style="list-style-type: none"> • 70% debt and 30% equity during development and construction. Commencing on the 2nd anniversary of the ISD, and continuing through the term of the FTSA, the debt/equity ratio will be revised for rate purposes to 75% debt/25% equity. • 70% debt and 30% equity for Expansions and Maintenance Capital. 4. Rate Base <ul style="list-style-type: none"> • Initial Rate Base ("IRB") equal to the sum of prudent Capital Expenditures, ("CAPEX"), Allowance for Funds Used During Construction ("AFUDC"), property taxes paid during construction, and working capital. 5. Maintenance Capital <ul style="list-style-type: none"> • Maintenance capital will be capitalized and added to the Rate Base (in the manner described in "Capitalization Structure" above) and recovered over the then-remaining term of the FTSA 6. Return on Equity ("ROE") for Initial System. <ul style="list-style-type: none"> • Fixed at Final Investment Decision ("FID") at a base rate of 12.0% after tax, plus a Rate Tracker Differential (as defined below).

		<p>7. Cost of Debt for Initial System</p> <ul style="list-style-type: none"> • Fixed at FID at a base rate of 5.0%, plus a Rate Tracker Differential (as defined below). <p>8. Rate Tracker Differential</p> <ul style="list-style-type: none"> • The Rate Tracker Differential is the increase or decrease in the 30-year U.S Treasuries yield at FID relative to such yield at the effective date of the MOU. <p>9. Depreciation Recovery</p> <ul style="list-style-type: none"> • 100% of CAPEX shall be recovered over the ICT through tolls. • CAPEX shall include the following items: <ul style="list-style-type: none"> • Prudently incurred CAPEX (including AFUDC and property taxes) after execution of the JVA pre-FEED Agreement, which shall be subject to review and audit by Shipper at its expense, in accordance with the principles set forth under "Review and Audit of CAPEX and O&M" below. • Prudently incurred CAPEX prior to the execution of the Pre-FEED JVA that is directly relevant to and utilized in advancing the AK LNG Project minus any amounts received by Transporter or its Affiliates from the State through AGIA reimbursement. • Transporter's Affiliate's share of costs incurred on the Alaska portion of the AGIA Project after December 5, 2008 and prior to execution of the Pre-FEED JVA (that have not otherwise been included in CAPEX through the operation of paragraph ii above) to the extent such costs do not exceed \$70 million minus any amounts received and retained by Transporter or its Affiliates from the State through AGIA reimbursement or from any State of Alaska entity for use of the data and assets associated with such costs. • No costs associated with the ANNGTC project may be included in CAPEX. • For toll design purposes, AFUDC will commence accrual upon approval by FERC of the project's request to initiate the pre-filing process. <p>10. Operations and Maintenance Costs</p> <ul style="list-style-type: none"> • Prudently incurred O&M costs and taxes other than income taxes (such as property taxes not otherwise included in rate base, fuel taxes, etc.) are annual flow-through costs to the account of the Shipper. O&M, and annual changes, shall be subject to annual review and audit by Shipper at its expense, provided that the audit is in accordance with the principles set forth under "Review and Audit of CAPEX and O&M" below. • In consultation with Shipper, Transporter will negotiate an appropriate allocation of project indirect costs, including cost of sharing facilities, allocated labor and overhead charges with the ANS Producers. With respect to Transporter owner's costs, allocation will be in accordance with Transporter allocation policy as approved by the NEB unless otherwise agreed by the
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parties.

- Variances in actual costs will be trued-up in the determination of the following year revenue requirement.

11. Income Taxes

- Calculated and collected on a normalized basis.
- Expenses associated with new taxes and changes to tax rate are flowed-through to the account of Shipper

12. Interruption of Firm Service, including Force Majeure ("FM")

- Shipper continues to make full payment during periods of service interruption.
- For Transporter's capacity on the Pipelines and GTP, all firm shippers (in-state and export LNG) shall have priority over interruptible shippers. In the event transportation service cannot be scheduled to all firm shippers on any day for any reason, capacity shall be scheduled first to deliver to utility customers, and then pro rata among other firm shippers.

13. Make-up Rights

- Make-up rights will be granted for any processing and/or transportation capacity or service offered by Transporter and paid for, but not taken, by Shipper.
- Make-up rights can be exercised pro-rata with other firm shippers' make-up rights whenever Transporter has excess processing and/or transportation capacity beyond the amount that it requires for satisfying its firm shippers' capacity requirement.
- Any unused Make-up Rights will expire at end of the contract term, including any extensions or renewals.

14. Provision of Third Party Services

- For third party GTP processing and Pipelines transportation services that do not involve investment of incremental capital, 90 percent of all net income (gross revenues minus incremental costs) received by Transporter from sources other than the FTSA, including but not limited to interruptible ("IT"), overrun, backhaul, or park and loan services shall be credited to the account of Shipper (to reflect the undertaking of Shipper to pay for 100% of the initial system Rate Base);
- The minimum rate for IT service shall be no less than the 100 percent load factor equivalent of the firm rate paid by Shipper
- Shipper shall only pay variable costs for IT, overrun, and backhaul services that do not involve incremental capacity as a result of expansions.
- Subject to meeting the Creditworthiness Requirements, Shipper shall have the right to temporarily release unused capacity to third-parties at a rate to be negotiated between Shipper and the temporary replacement shipper. A release of capacity through temporary assignment/release does not release Shipper from its obligations under the FTSA.

15. Fuel Gas, Line Pack, Lost and Unaccounted for Gas

- Provided by Shipper as in-kind gas contribution; or purchased under a charged fuel rate at Shipper option, in which case the

		<p>charged fuel expense will be included as a separate charge.</p> <ul style="list-style-type: none"> • No allocation of fuel shall be allocated to backhaul services • Fuel utilization to be allocated among all shippers based on actual monthly throughput. <p>16. Return of Extracted Gas to Shipper</p> <ul style="list-style-type: none"> • Extracted acid gas (CO₂, H₂S and other impurities) will be returned to Shipper for disposal or further processing at the outlet of the GTP <p>17. In-State Gas Uses</p> <ul style="list-style-type: none"> • Minimum 5 in-state off-take points for non-LNG consumption • Three tariff zones <ul style="list-style-type: none"> • Zone 1 – from North Slope to Nenana • Zone 2 – deliveries to Big Lake (South Central) • Zone 3 – deliveries to the LNG plant for LNG exports • Rates to be designed in consultation with Shipper to reflect a cost allocation principle based on weighted average volumetric-mile between deliveries to each zone <p>18. GTP Processing and Pipeline Transportation Services</p> <ul style="list-style-type: none"> • Processing services at the GTP and transportation services on the Pipelines will be offered separately to accommodate different needs of shippers <p>19. FTSA Renewal Right</p> <ul style="list-style-type: none"> • Shipper shall have the option, exercisable not later than 2 years prior to the end of the ICT (the “Renewal Date”) to renew the FTSA with Transporter for all or part of its Daily Contracted Capacity after the expiration of the ICT on an annual basis at a negotiated rate based on (i) a cost-of-service calculation computed on the net book value of Transporter equity interest in the underlying facilities used to provide GTP processing and pipeline transportation services to Shipper, with the rate recalculated to spread remaining Rate Base over the extended term of the FTSA, and (ii) the same toll setting terms such as “Capitalization Structure”, O&M, and “Income Taxes” set forth above, except that the rate applicable for the extension shall be based on a “Cost of Debt” and an ROE to be negotiated based on conditions existing at the time, and (iii) the contracted capacity as renewed by Shipper; provided, however, that the costs and capacity related to any expansion facilities priced incrementally shall be excluded from such computation. In the event that the net book value of the facilities has been or will be substantially depreciated as of the expiry of the ICT, parties shall consider in good faith reasonable compensation for Transporter to continue its role as service provider. <p>20. Buy-Back Right</p> <ul style="list-style-type: none"> • If as of the Renewal Date, Shipper has not exercised its right to renew the FTSA Shipper shall have a one-time option, exercisable by notice to Transporter within 60 days of the Renewal Date (the “Buy-Back Notice Date”), to buy from Transporter as of the end of the ICT its equity interest in Alaska LNG Project at a purchase price equal to the net book value of
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Transporter equity interest in the underlying facilities used to provide GTP processing and pipeline transportation services as of the end of ICT. Any associated assignment shall be made on an "as is, where is" basis, without representation or warranty of any kind by Transporter.

21. Put Option

- If: (i) as of the Renewal Date, Shipper has not exercised its right to renew the FTSA by five or more years, and (ii) as of the Buy-Back Notice Date Shipper has not exercised the Buy-Back Right, Transporter shall have the option, exercisable by notice to Shipper within 90 days of the Buy-Back Notice Date, to put to Shipper its equity interest in Alaska LNG Project at a purchase price equal to the net book value of Transporter equity interest in the facilities used to provide GTP processing and pipeline transportation services as of the end of ICT, with closing subject to legislative enactment. Any associated assignment shall be made on an "as is, where is" basis, without representation or warranty of any kind by Transporter.

22. Review and Audit of Pipelines and GTP CAPEX and O&M

- Shipper and Transporter agree to develop a protocol and process (the "Audit Protocol") for Shipper to access certain Alaska LNG Project information to facilitate Shipper review and audit of costs and expenses (capital and operating), which will have to be consistent with the HOA and subsequent agreements with the ANS Producers for the Alaska LNG Project. The Audit Protocol will be appended to the PA and FTSA, and include at minimum, the following items:
 - the audit shall be conducted by an independent auditing firm selected pursuant to State procurement code based on minimum qualifications to be agreed upon by the Shipper and Transporter for such procurement; and
 - the audit rights shall be exercised through such independent auditing firm, who shall be required to abide by confidentiality restrictions to be agreed between Transporter and Shipper.
- The principles in the Audit Protocol for reviewing and auditing the Pipelines and GTP CAPEX and O&M are as follows:
 - Any costs incurred shall be deemed to be prudently incurred if they are pursuant to (1) an approved Work Program and Budget for capital expenditures (WP&B) for the Alaska LNG Project that was submitted to and approved by Shipper or any associated entity of the Shipper in advance, (2) an Alaska LNG Project Operating Budget that was submitted to and approved by Shipper or any associated entity of the Shipper in advance, (3) the emergency HSE provisions of any underlying agreement, or (4) the approval of the Shipper or any associated entity of the Shipper. In the event the Shipper or any associated entity of the Shipper does not respond to any request for approval, as set out in (1), (2),

		<p>or (4) above, within ten (10) business days (or such shorter period as set out in the agreements or resolutions for the Alaska LNG Project) the Shipper will be deemed to have approved the costs incurred. If the Shipper does respond but does not approve, the Transporter shall raise the concern and vote not to approve as part of the approval process under the applicable Alaska LNG Project agreements, and so long as the Transporter does so such costs shall be deemed prudent if they are approved despite the Transporter's vote to disapprove under the applicable Alaska LNG Project agreement.</p> <ul style="list-style-type: none"> • For the avoidance of doubt, (a) personnel charge out rates, including annual adjustments, as provided in the relevant Alaska LNG Project agreement shall not be subject to review and audit, and (b) any expenditures in excess of budgeted amounts that are in accordance with the limitations in the applicable Alaska LNG Project agreements that do not require further management committee approvals (currently set at 105% of budget) shall be deemed to be prudently incurred. <p>23. Assignment</p> <ul style="list-style-type: none"> • Shipper may assign its rights and obligations under the FTSA to an Affiliate or third party with Transporter's consent (not to be unreasonably withheld), provided the transferee assumes in writing such rights and obligations on terms and conditions satisfactory to Transporter, including the creditworthiness standards set forth in paragraph 10 below.
7.	Pipelines and GTP Expansions	<ul style="list-style-type: none"> • In consultation with Shipper, Transporter will expand the GTP and Pipelines when requested by creditworthy shippers on terms that are acceptable to Transporter. Transporter will act reasonably in negotiating expansion terms with the expansion shipper. The capitalization structure for expansion shall be consistent with that set forth above. The ROE for expansion shall be reflective of the risk of such expansion and the cost of capital environment existing at the time. In the event Transporter fails to reach agreement with the expansion shipper, Shipper or its transferee/assignee (including State Affiliates and independent third parties not affiliated with the State or any State Affiliate) has the right to offer expansion terms, in its sole discretion, to such shipper and undertake the expansion as a direct participant in Alaska LNG Project and consistent with the principles established in this section. • Upon request by potential expansion shipper, Transporter will provide to the potential expansion shipper and Shipper estimated rates which the potential expansion shipper would have to pay for receiving Pipelines transportation and/or GTP processing services. Shipper and Transporter agree that no regulatory agency can mandate an expansion or set expansion terms unless required by applicable law. • Expansions must be in reasonable engineering increments and on commercially reasonable terms, including but not limited to full

		<p>recovery of expansion CAPEX over the expansion term</p> <ul style="list-style-type: none"> • Expansions for In-State Uses and Export LNG <ul style="list-style-type: none"> ○ Expansions to be undertaken on a sole risk basis ○ Expansion tolls and fuel assessments will be determined based on a methodology such as incremental and/or rolled in, as determined by the Shipper. The methodology will be established prior to entering into FEED.
8.	Development Cost Reimbursement	<ul style="list-style-type: none"> • If Shipper or Transporter exercises its right to terminate pursuant to any of the Termination Events set forth below, the Shipper shall pay Transporter for all the development costs incurred by Transporter after December 31, 2013 under the Pre-FEED JVA or FEED Agreement with the ANS Producers, including but not limited to contract cancellation penalties and continued funding obligations under such agreements, through the date of termination. The Shipper's payment of development costs shall be net of all AGIA payments received and retained by the AGIA Licensee relating to Transporter's share of development costs for activities authorized under AGIA Project Plan Amendment 1B. • Shipper will further pay Transporter an amount equal to the associated AFUDC, at a rate of 7.1% for the purpose of this calculation, on such development costs if (i) such termination is exercised by Shipper or (ii) Transporter exercises the termination due to the failure of the Alaska Legislature to ratify the MOU, or the subsequent FTSA, or Shipper's failure to meet the Creditworthiness Requirements at any time. • Shipper's obligation to reimburse Transporter for such costs shall be Transporter's exclusive remedy in law and equity for such termination.
9.	Termination Event	<p>Shipper's Rights To Terminate (Shipper Termination Event):</p> <ul style="list-style-type: none"> • Prior to FEED: <ul style="list-style-type: none"> • Any time provided a 90-day notice is given to Transporter. • From start of FEED through FID: <ul style="list-style-type: none"> • Within 60 days from the date one or more ANS Producers or Transporter withdraws from the Alaska LNG Project • At any time if Shipper (or the ANS Producers, if the SOA elects RIV) is unable to sign agreements to sell all of its royalty or tax gas on terms acceptable to Shipper. • At FID, for any reason. <p>Transporter Rights To Terminate (Transporter Termination Event):</p> <ul style="list-style-type: none"> • Legislature fails to provide statutory authority to DNR/DOR to enter into PAs by June 30, 2014. • Shipper fails to execute the PA within the specified time. • Shipper fails to execute the FTSA by December 31, 2015. • Shipper fails to maintain the standard of Creditworthiness Requirements. Transporter shall provide notice to Shipper of a failure to meet such standards, and Shipper shall have a reasonable period to cure.

		<ul style="list-style-type: none"> • At FID, if all Transporter corporate/Board approvals have not been obtained. • Within 3 months from FID, if debt financing has not been secured on terms and conditions satisfactory to Transporter in its sole discretion <p>Either Transporter or Shipper may terminate:</p> <ul style="list-style-type: none"> • If term(s) of the FEED Agreement or Definitive Agreements is/are not acceptable to Shipper or Transporter • Within 90 days from the date of issuance of any final regulatory authorizations, certificates, or permits that includes material unacceptable condition(s) or requirement(s) to Transporter or Shipper • At FID, if not all right-of-ways, easement and land leases have been secured <p>Conveyance of Transporter Alaska LNG Project Interest to Shipper:</p> <ul style="list-style-type: none"> • Upon a Termination Event and payment to Transporter of the Development Costs, and the associated AFUDC, as applicable, Transporter shall assign all of its interest in the Pre-FEED JVA or the FEED Agreement, including all of its equity stake in the AKLNG Project, to the Shipper promptly without additional consideration. Any such assignment shall be made on an “as is, where is” basis, without representation or warranty of any kind by Transporter. • Within a period of 5 years of SOA exercising its termination right, if SOA participates in a pipeline project to commercialize North Slope gas that is substantially similar to the Alaska LNG Project, SOA shall offer to Transporter an option to participate in the GTP and Pipelines of such project on terms and conditions consistent with those set forth in this Term Sheet, except the cost of debt and ROE to be negotiated based on conditions existing at the time. The SOA shall not be obligated to offer the foregoing option to the Transporter if: <ul style="list-style-type: none"> i. the Transporter is in material default of the PA or FTSA at the time of the termination, and ii. the material default was capable of being remedied, and iii. Transporter was offered a reasonable time period to remedy the material default and failed to do so.
10.	Creditworthiness Requirements	<ul style="list-style-type: none"> • Shipper must meet and maintain the following creditworthiness standards through the term of the PA and FTSA. <ol style="list-style-type: none"> 1. A minimum of A- credit rating issued by Standard & Poor’s or equivalent, and 2. Provide documentation satisfactory to Transporter that Shipper obligations under the PA or FTSA are supported with the full faith and credit of the State of Alaska (as a sovereign) or other dedicated revenue source acceptable to Transporter. • As an alternate to (1) and (2) above, Shipper could provide

		<p>collateral, in the form of cash or letter of credit in form and substance reasonably satisfactory to Transporter, of amount sufficient to cover Shipper's proportional share of (i) projected capital costs during development and construction, or (ii) payment obligations under the FTSA over the remaining term of the FTSA.</p> <ul style="list-style-type: none"> • Shipper continues to be liable for all obligations, including maintaining the creditworthiness standards, under the PA or FTSA if its capacity commitment is transferred to another party on a temporary basis such as through temporary release or assignment. This applies similarly to permanent assignment unless the assignee meets the appropriate creditworthiness standards. <ol style="list-style-type: none"> 1. For any assignee who is an Affiliate of the State, the creditworthiness standards will be the same as Shipper. 2. For any assignee who is not an Affiliate of the State, the creditworthiness standards will be: <ul style="list-style-type: none"> • A minimum of A- credit rating issued by Standard & Poor's or equivalent, and • A minimum Tangible Net Worth equal to its share of the projected capital cost for the period prior to In-Service Date ("ISD") and its share of the Rate Base for the period following the ISD.
11.	No Discriminatory Action by Shipper	Transition Agreements to contain commercial protection for discriminatory changes in law or other discriminatory actions to the extent permitted by applicable law.
12.	Dispute Resolution	FERC to be the arbiter of disputes under the PA and FTSA, provided FERC has jurisdiction over (i) the Pipelines and GTP components of the AK LNG and (ii) the rates and services provided by the Pipelines and GTP components of the AKLNG. The Parties intend that FERC (or any other applicable regulator having jurisdiction) should provide a ruling consistent with and not outside the scope of the PA or FTSA, as the case may be, when such agreement is read in its entirety.
13.	Term Sheet Not Stand Alone	This Term Sheet is an integral part of the MOU and is not a stand-alone agreement between the Parties or Shipper and Transporter. It sets forth the basis on which the Parties intend to proceed forward as they negotiate the PA, the FTSA, and other applicable or ancillary commercial agreements (collectively, the "Alaska LNG Midstream Services Agreements"). Neither Party shall be legally bound to enter into Alaska LNG Midstream Services Agreements, and entering into such Alaska LNG Midstream Services Agreements shall be at the sole discretion of each Party and subject to all necessary internal approvals of each Party. The Parties each acknowledge that (a) the Term Sheet does not contain all the terms and conditions that would be included in the legally binding Alaska LNG Midstream Services Agreements, and therefore, the Term Sheet does not constitute a binding commitment or offer or acceptance with respect to its terms or the transaction to be consummated; (b) it is the intention of the Parties that the PA and FTSA will be consistent with the commercial principles set out in this TS; and (c) the making of this Term Sheet or attachment of this Term Sheet to the MOU will not create any binding rights or obligations, as it is intended that neither party will have any right or obligations to

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		<p>complete the transactions contemplated in this Term Sheet unless and until the Precedent Agreement is executed and delivered at the sole discretion of each Party. The Alaska LNG Midstream Services Agreements may contain such other provisions as are negotiated by the Parties on reasonable commercial terms and conditions, based on industry practice in other comparable pipeline transportation arrangements.</p>
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INTRO TO SB 138



Introduction to Senate Bill 138 relating to the Commercial Production of North Slope Natural Gas

The recent alignment by parties around a path forward on a large-scale LNG project, and the Alaska Gasline Development Corporation's ("AGDC") preparation for an open season in 2015 for an in-state pipeline, creates an opportunity for a coordinated and collaborative effort.

With parties working together on Alaska's terms, and in Alaskans' interests, the bill relating to the Commercial Production of North Slope Natural Gas will advance a natural gas project that would provide natural gas for Alaskans and markets beyond.

The bill advances a natural gas project to provide gas to Alaskans and markets beyond in a number of important ways.

1. The bill would establish an AGDC subsidiary to pursue state equity interests in a large-diameter natural gas pipeline project and associated facilities.

Commercialization of North Slope natural gas should occur with both in-state needs and export potential in mind. Therefore, the bill would create a subsidiary under the AGDC, utilizing a fund exclusively for a large-diameter natural gas pipeline project, to pursue holding state equity interests in a large-diameter natural gas pipeline project that could include treatment and liquefaction facilities. The bill contemplates a separate, but cooperative effort between AGDC's pursuit of ASAP and the newly created subsidiary's pursuit of the AKLNG project that does not impede the mission of the AGDC to continue to advance the Alaska Stand Alone Pipeline (ASAP) in-state natural gas pipeline project.

2. The bill authorizes the Department of Natural Resources (DNR) to participate in negotiations of contracts and the development of terms for project services and other contracts for the development and implementation of a North Slope natural gas project.

The bill would provide authority for the Commissioner of Natural Resources to enter into short-term commercial agreements to advance the project through the development and implementation phases. In addition, it would allow the Commissioner to negotiate terms, subject to legislative approval, for state equity interests in a natural gas project, project services related to a natural gas project, and other contracts for the development and implementation of a North Slope natural gas project. To facilitate

negotiations and continuing development activities, confidentiality of information would be maintained. Any contract to be presented to the Legislature for authorization would not be confidential.

3. The bill would authorize DNR to modify certain lease terms on properties that provide gas to any North Slope natural gas project.

Current state oil and gas leases contain terms - such as those that allow the state to switch between taking royalty oil and gas in-kind or in-value – that may hinder the ability of lessees to enter in to long-term contracts for sales of natural gas produced on the North Slope. Under the bill, if a natural gas project sponsor has demonstrated sufficient project commitments, the Commissioner may modify existing leases that commit gas to a natural gas project, with the concurrence of the lessees. Gas committed from these leases, whether through royalty or the production tax, would be subject to the current standards for sale, exchange, or disposal of gas taken in-kind by the state as its royalty share. In addition, and with the concurrence of lessees, the commissioner may also modify existing royalty and net profit share provisions to achieve consistency among leases.

4. The bill would make changes to Alaska’s Oil and Gas production tax that will advance the project.

The current tax structure, which imposes a net tax on the annual production tax value of oil and gas, is retained until 2022. The bill introduces a new gross tax levy on gas produced after 2021.

For gas produced after 2021, the tax levy on gas would be 10.5 percent of annual gross value at the point of production. The oil tax levy would remain at 35 percent of net annual production tax value. Most importantly, for leases that have been modified as described above, the bill would allow producers to pay, for gas from modified leases only, production tax on that gas with gas instead of with money, equal to 10.5 percent of the taxable gas production from the modified leases. The name of a producer and the volumes of gas subject to the election to pay tax as gas would be public information.

TRANSMITTAL LETTER

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Governor Sean Parnell
STATE OF ALASKA

January 23, 2014

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

Dear President Huggins,

Alaska has significant gas resources on the North Slope. Current known reserves are nearly 35 trillion cubic feet (TCF), and US Geological Survey estimates of technically recoverable conventional gas resources are more than 240 TCF. Bringing this gas to market has been the focus of many efforts over the last 30 years, but to be successful, requires a coordinated and collaborative effort of many parties.

The recent alignment by parties around a path forward on a large-scale LNG project, and the Alaska Gasline Development Corporation's (AGDC) preparation for an open season in 2015 for an in-state pipeline, create an opportunity for that coordinated and collaborative effort. With parties working together on Alaska's terms, and in Alaskans' interests, it is time to move forward with legislation to advance a natural gas project that would provide natural gas for Alaskans and markets beyond. Therefore, under the authority of Article III, Section 18 of the Alaska Constitution, I am transmitting a bill designed to achieve the long-sought State goal of commercial production of North Slope natural gas for the benefit of all Alaskans.

The bill will expand the purposes of AGDC to allow it, through a separate subsidiary, to advance a large-diameter natural gas pipeline project by carrying the State's equity interest in the project's infrastructure, including treatment and liquefaction facilities. The bill would also authorize the Commissioner of Natural Resources to negotiate modifications of existing oil and gas leases to better manage Alaska's interests in its North Slope natural gas resources. Finally, the bill would amend the levy of tax on gas under Alaska's oil and gas production tax, providing the clarity of terms any North Slope natural gas project needs to proceed.

First, commercialization of North Slope natural gas should occur with both in-state needs and export potential in mind. Therefore, the bill would provide authority to pursue an equity position in a large-diameter natural gas pipeline project that could include treatment and liquefaction facilities, but would not impede the mission of AGDC to continue to advance the Alaska Stand Alone Pipeline (ASAP) in-state gasline project.

As to the provisions of the bill relating to the Department of Natural Resources, the bill would provide the needed authority for the Commissioner of Natural Resources to enter into short-term commercial agreements related to the North Slope natural gas project. In addition, the bill would allow the Commissioner of the Department of Natural Resources to negotiate terms, subject to legislative approval, for project services related to a natural gas project. To facilitate negotiations and continuing development activities, confidentiality of information would be maintained, but any contract to be presented to the Legislature for authorization would not be confidential.

Current State oil and gas leases contain terms – such as provisions that allow the State to switch between taking royalty oil and gas in-kind or in-value – which may hinder the ability of lessees to enter into long-term contracts for sales of natural gas produced on the North Slope. The bill would allow the Commissioner of Natural Resources to modify certain lease terms on property that commits gas to a natural gas project in order to facilitate commercialization. After a natural gas project sponsor has demonstrated sufficient project commitments, the Commissioner may modify existing leases that commit gas to a natural gas project, with the concurrence of the lessees. Gas committed from these leases, whether through royalty or the production tax, would be subject to the current standards for sale, exchange, or disposal of gas taken in-kind by the State as its royalty share.

Other provisions of the bill relate to the oil and gas production tax, specifically to the tax levy on gas. The current tax structure, which imposes a net tax on the annual production tax value of oil and gas, is retained until 2022 when the tax limitations expire for Cook Inlet oil and gas produced anywhere in the state but used in-state. The bill proposes changes to the tax system to facilitate natural gas development and provide gas for in-state sale and export. For gas produced after 2021, the tax levy on gas would be 10.5 percent of annual gross value at the point of production. The oil tax levy would remain at 35 percent of net annual production tax value. Most importantly, for leases that have been modified as described above, the bill would allow a producer to pay, for gas from modified leases only, its production tax with gas instead of with money equal to 10.5 percent of the taxable gas production from the modified leases. The Commissioner of Revenue will continue to direct revenue received from the sale of gas to the General Fund.

In order to pay the production tax in-kind, the producer must make an irrevocable election under regulations adopted by the Department of Revenue. Disputes over any tax deficiency, and interest or penalties on a deficiency, would be accounted for as if the tax was levied in money. Furthermore, gas flared, released, or allowed to escape upstream of the point of production, or gas used on a lease or property would not be subject to an in-kind election.

The bill would make changes to provisions in current law to facilitate the new gross tax levy on gas. The name of a producer and the volumes of gas subject to the election to pay tax as gas would be public information. The alternate minimum tax on North Slope oil and gas would apply only to oil after 2021. The bill accounts for how producers make estimated monthly installment payments of tax due after 2021 and clarifies that credits may be taken only against the tax levy in money, not against the levy in-kind.

Development of natural gas projects of this scope is a new chapter in State resource development that will be enhanced by the State's equity participation in either project. Given the momentum on

The Honorable Charlie Huggins
January 23, 2014
Page 3

developing North Slope gas, we must act now to assure that our laws provide the appropriate agencies with authorities and tools to allow the State to advance projects on Alaska's terms and in Alaskans interests.

I urge your prompt and favorable action on this measure.

Sincerely,

A handwritten signature in black ink that reads "Sean Parnell". The signature is written in a cursive, flowing style.

Sean Parnell
Governor

Enclosure

SECTIONAL ANALYSIS



**CS FOR SB 138 (RES): Commercial Production of North Slope Gas
SECTIONAL ANALYSIS: 28-GS2806\O**

Senate Finance Committee – February 25, 2014

Section 1 sets out the legislative findings that the commercial production of gas deposits from the North Slope is of vital public interest that will provide benefits to the state; therefore it is the intent of the legislature that further progress towards this goal incorporate consideration of the provisions as set out in this section.

Section 2 amends AS 31.25.005, related to the purpose of the Alaska Gasline Development Corporation (AGDC), to add new subsections (4) and (5) for the advancement of a large-diameter natural gas pipeline project through acquiring an equity interest in the large-diameter pipeline project and developing treatment and liquefaction facilities through the subsidiary created in new AS 31.25.122.

Section 3 conforms AS 31.25.010, the structure of AGDC related to dissolution, to include reference to a large-diameter natural gas pipeline project.

Section 4 amends AS 31.25.080(f) to allow the AGDC in-state gas pipeline project developers to continue to coordinate with the developers of large-diameter natural gas pipeline to the maximum extent practicable without delaying the progress of developing the in-state natural gas pipeline. In coordinating with the developers of a large-diameter natural gas pipeline, AGDC may use money appropriated for that purpose under AS 31.25.110 but may not use money appropriated for the in-state gas pipeline fund in AS 31.25.100. This section removes the description of a large diameter natural gas pipeline, the 'common' status of pipeline facilities, and portions of the area description related to a gas pipeline from the North Slope.

Section 5 amends AS 31.25.100 to direct that money appropriated to the in-state natural gas pipeline fund may not be used for the large-diameter natural gas pipeline project under new AS 31.25.005(4) and (5) and AS 31.25.080(f).

Section 6 establishes AS 31.25.110, the Large-Diameter Natural Gas Pipeline Project fund in order to fund the purposes of the subsidiary established in AS 31.25.122. Money appropriated to the Large-

Diameter Natural Gas Pipeline Project fund may not be used for the purposes of the in-state natural gas pipeline under AS 31.25.005(1). Money appropriated to the Large-Diameter Natural Gas Pipeline Project fund for the purpose of AS 31.25.005(4) and (5), the large-diameter natural gas pipeline project, is to be held in an account created within the fund for that purpose.

Section 7, related to subsidiaries created under AS 31.25.120 to specify that a subsidiary corporation under this section may only use money appropriated for the in-state natural gas pipeline under AS 31.25.100.

Section 8 adds new section AS 31.25.122 to establish a subsidiary for a large-diameter natural gas pipeline project as a public corporation and a government instrumentality for administrative purposes but with a legal existence independent from the state and the AGDC. The purpose of the subsidiary is to acquire state equity interests in components of a large-diameter natural gas pipeline project, including pipelines, treatment, liquefaction and marine terminal facilities. The subsidiary may use money appropriated under AS 31.25.110 and may not to use money appropriated to the in-state natural gas pipeline project fund in AS 31.25.100. Subsection (b) creates a seven member board of directors of the subsidiary. Subsection (d) sets out purposes, (e) allows the AGDC to transfer assets, except for revenues as restricted by AS 31.25.100 to the subsidiary created under this section. Some of the statutory provisions applicable to the AGDC are incorporated to aid in the operation of the subsidiary. Subsection (f) relates to employees of the subsidiary while (g) describes the conditions of termination of the subsidiary.

Section 9 amends AS 31.25.390(5), the definition of “in-state natural gas pipeline”, by adding a reference to AS 31.25.005(1).

Section 10 adds new definitions in AS 31.25.390. New subsection (7) defines a “large-diameter natural gas pipeline project” and (8) defines a “subsidiary board” as meaning a subsidiary under AS 31 25.122.

Section 11 amends the authority of the commissioner of the Department of Natural Resources (DNR) by adding new paragraphs (10) – (13) to AS 38.05.020(b). Effective immediately, the DNR commissioner may enter into commercial agreements of not more than two years duration for project services related to the North Slope natural gas project. In consultation with the Commissioner of Revenue, the DNR commissioner may participate in negotiations associated with a North Slope natural gas project. A contract negotiated in which the state is a party would not be effective against the state without legislative authorization for the governor to execute the contract. Paragraph (12) permits the DNR commissioner to enter into confidentiality agreements to maintain confidentiality throughout contract negotiations and contract implementation. Confidential information obtained under paragraph (12) shall be shared with the legislature only in committees held in executive session or under confidentiality agreements. Final contracts subject to approval by the legislature would not be confidential.

Section 12 adds new paragraph (13) to allow the DNR commissioner, in consultation with the commissioner of revenue, to take custody of gas delivered to the state under new AS 43.55.014(b), to manage project services and the disposition of gas delivered to the state under new AS 43.55.014(b).

Section 13 clarifies AS 38.05.180(i) with a conforming amendment that the exploration incentive credit may be applied against the oil and gas production tax levied under AS 43.55.011.

Sections 14 and 15 adds a new subsection (hh) to the Alaska Land Act, AS 38.05.180, which deals with oil and gas leasing, to permit the DNR commissioner to propose modifications to existing oil and gas leases relating to the state's ability to take royalty gas in kind or in value, the establishment of values for the state's royalty gas and deductions for transportation costs, and the fixation of royalty rates of not less than 12.5 percent and modifications to net profit share terms in oil and gas leases. Modifications to existing oil and gas leases would require a written determination by the DNR commissioner that a North Slope natural gas project has sufficient financial commitment and commitment of gas from the leases to be modified, in addition to concurrence of the lessees to the modification.

Sections 16 through 19 amend AS 38.05.183, related to sales of royalty oil or gas, by adding references to gas delivered to the state under AS 43.55.014(b), the levy of production tax on gas to be paid in gas for certain North Slope leases.

Section 20 adds two new subsections (26) and (27) in AS 38.05.965. Subsection (26) defines "North Slope natural gas project;" subsection (27) defines "project services."

Sections 21 and 22 amend AS 40.25.100 related to the confidentiality of tax information to clearly establish as confidential information related to contract negotiations for a North Slope natural gas project. Section 21 references new subsection (k) in AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the gas production tax from modified North Slope leases in gas and the amount of gas subject to that election.

Section 23 amends AS 40.25.120(a) to establish an exception in public records for information confidential under the new provisions of AS 38.05.020(b) (related to contract negotiations for a North Slope natural gas project).

Sections 24 and 25 amend the authority of the commissioner of the Department of Revenue (DOR) by adding new paragraphs (16) and (17) in AS 43.05.010. Effective immediately, paragraph (16) provides that the DOR commissioner may consult with the DNR commissioner on negotiations associated with a North Slope natural gas project. Section 24 amends AS 43.05.010 by adding paragraph (17) to provide that the DOR commissioner direct the disposition of revenues received from gas delivered to the state under AS 43.55.014(b) by entering into agreements with the DNR commissioner.

Section 26 adds new subsection (k) to AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay, after 2022, the gas production tax in gas and the amount of gas subject to that election.

Section 27 amends AS 43.20.144(f) to clarify that gas subject to an election to pay the oil and gas production tax on gas as gas under AS 43.55.014 is included the extraction factor in the Alaska Net Income Tax Act.

Section 28 amends AS 43.55.011(e), the levy of the oil and gas production tax, to add reference to the separate levy under AS 43.55.014 for certain North Slope gas. For oil and gas produced after January 1, 2014 and before January 1, 2022, AS 43.55.011(e)(2) would levy on producers of oil and gas produced each calendar year a flat rate tax of 35 percent of the production tax value of taxable oil and gas produced from each lease or property in the state. No change is made to current tax ceilings that apply to Cook Inlet oil and gas, gas produced outside the Cook Inlet basin and used in the state, and oil and gas produced from new fields outside the Cook Inlet basin and south of the North Slope.

For oil and gas produced on or after January 1, 2022 (after expiration of the tax ceilings for Cook Inlet oil and gas, and gas produced outside the Cook Inlet basin and used in the state), AS 43.55.011(e)(3) would levy on producers of oil produced each calendar year a flat tax rate of 35 percent of the production tax value of taxable oil produced from each lease or property in the state and on producers of gas, and a flat tax rate of 10.5 percent of the gross value at the point of production of gas produced from each lease or property in the state. (Oil and gas subject to AS 43.55.011(p) continue to be taxed at no more than four percent of gross value at the point of production until 2027.) The tax on gas for which the DOR commissioner has approved an election to pay in gas would be levied under AS 43.55.014.

Section 29 amends AS 43.55.011(f), the alternate minimum tax on North Slope oil and gas, to retain the current minimum tax until January 1, 2022. After that date, the minimum tax would apply to oil produced on the North Slope. A minor amendment adds the reference to the tax applying to leases or properties "that include land" to ensure that property that straddles 68 degrees North latitude will be considered north of 68 degrees North latitude for purpose of the alternate minimum tax.

Section 30 adds AS 43.55.014 which allows producers to make an irrevocable election, under regulations adopted by DOR, to pay the oil and gas production tax in gas for gas produced from oil and gas leases whose terms have been modified under proposed AS 38.05.180(hh). The levy would be 10.5 percent of the taxable gas when and as the gas is produced. The producer would pay the tax by delivering the gas to the state at the point of production. The DNR would manage the custody and disposition of gas delivered to the state. Gas subject to this provision would not include gas flared, released, or allowed to escape upstream of the point of production, or to gas used in lease operations or for repressuring. Tax deficiencies and interest and penalties on any tax deficiency would be accounted for as if the tax was levied for money under AS 43.55.011(e). This section would take effect on January 1, 2015 to be applied to gas produced from certain North Slope leases on and after January 1, 2022.

Sections 31 and 32 are conforming amendments to the oil and gas producer education credit, AS 43.55.019, to clarify that the credit can be applied to tax liability under AS 43.55.011(e) only.

Section 33 amends AS 43.55.020(a), monthly installment payments of estimated tax, to add provisions for payment of tax after January 1, 2022 and to clarify the tax rates that apply to oil and gas produced

after a certain date. Monthly installment payments for oil and gas produced on or after January 1, 2022 are in new subsection (a)(7).

Sections 34 and 35 are conforming changes to AS 43.55.020, monthly installment payments. Subsection (g) is amended to account for new tax provisions for oil and gas produced after January 1, 2022. A similar conforming change is made in AS 43.55.020(h) to account for interest on overpayments of installment payments.

Sections 36 and 37 amends AS 43.55.020(l) and adds subsection (m), related to making settlements by a producer with private landowner royalty owner, to account for making a settlement with the royalty owner for gas taxable before January 1, 2022 and under new AS 43.55.014.

Section 38 amends AS 43.55.030, annual statements by producers and explorers, to require reporting of the amount of gas produced from a lease or property for which tax is levied under AS 43.55.014 and the amount of gas delivered to the state under AS 43.55.014.

Section 39 amends AS 43.55.160(a), calculation of annual production tax values, to clarify and conform to the levy of tax under AS 43.55.011(e)(2) for oil and gas produced before January 1, 2022.

Section 40 amends AS 43.55.160(e), related to determination of excess lease expenditures for the purpose of calculating a carried-forward loss credit, to account for annual production tax values for oil produced on and after January 1, 2022.

Section 41 amends AS 43.55.160(f), a 20 percent gross value reduction for certain oil and gas produced north of 68 degrees North latitude, so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

Section 42 amends AS 43.55.160(g), a 10 percent gross value reduction for certain oil and gas produced from a unit north of 68 degrees North latitude made up solely of leases that have a royalty share of more than 12.5 percent in amount or value of the production removed or sold from the lease so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

Section 43 amends AS 43.55.160, calculation of annual production tax values, to add a new subsection (h) for calculation of annual production tax values for oil produced on and after January 1, 2022. On and after January 1, 2022, gas would be taxed at a percentage of gross value. Accordingly, there would be no need to calculate a production tax value (gross value at point of production less lease expenditures) for gas. Producers would still calculate a production tax value of oil taxable under AS 43.55.011(e) for the segments set out in AS 43.55.160(h).

Section 44 makes a conforming amendment to AS 43.55.165, lease expenditures, to exclude as a deduction from lease expenditures the tax levied under AS 43.55.014.

Sections 45 through 47 amend, for purposes of the oil and gas production tax, the definitions of "gas processing plants" and "point of production" for gas to be upstream of either the first point where accurately measured, the inlet of a pipeline transporting the gas to a gas treatment plant, or the inlet of any gas pipeline system transporting gas to market. Section 46 adds a definition of "gas treatment plant".

Section 48 makes conforming amendments to AS 43.98.030, the film production tax credit, to limit the applicability of the credit to the tax levied by AS 43.55.011.

Section 49 amends uncodified law to add a new section related to direction that at the time the commissioner of natural resources submits the first contract to the legislature for approval, the commissioner of revenue shall present a plan and suggested legislation to allow a resident of the state to participate as a co-owner in a North Slope natural gas pipeline, and sets out factors that must be in the plan.

Section 50 allows the DNR and the DOR to adopt regulations to implement this Act.

Section 51 instructs the revisor of statutes to make a title change to AS 38.05.183 to include AS 43.55.014(b).

Sections 52 and 53 set effective dates for different sections of the bill. Sections 1 -10, 12, 13 19, 20, 22, 23, 30, 31, 47 and 48 would be effective immediately. The other sections would be effective January 1, 2015.



SB 138: Commercial Production of North Slope Gas

SECTIONAL ANALYSIS

January 23, 2014

Section 1 amends AS 31.25.005, related to the purpose of the Alaska Gasline Development Corporation (AGDC), to add new subsections (4) and (5) for the advancement of a large-diameter natural gas pipeline project through acquiring an equity interest in the large-diameter pipeline project and developing treatment and liquefaction facilities through the subsidiary created in new AS 31.25.122.

Section 2 conforms AS 31.25.010, the structure of AGDC related to dissolution, to include reference to a large-diameter natural gas pipeline project.

Section 3 amends AS 31.25.080(f) to allow the AGDC to continue to coordinate with the developers of large-diameter natural gas pipeline to the maximum extent practicable without delaying the progress of developing the in-state natural gas pipeline. In coordinating with the developers of a large-diameter natural gas pipeline, AGDC may use money appropriated for that purpose under AS 31.25.110 but may not use money appropriated for the in-state gas pipeline fund in AS 31.25.100. This section removes the description of a large diameter natural gas pipeline, the 'common' status of pipeline facilities, and portions of the area description related to a gas pipeline from the North Slope.

Section 4 amends AS 31.25.100 to direct that money appropriated to the in-state natural gas pipeline fund may not be used for the large-diameter natural gas pipeline project under new AS 31.25.005(4) and (5) and AS 31.25.080(f).

Section 5 establishes AS 31.25.110, the Large-Diameter Natural Gas Pipeline Project fund in order to fund the purposes of the subsidiary established in AS 31.25.122. Money appropriated to the Large-Diameter Natural Gas Pipeline Project fund may not be used for the purposes of the in-state natural gas pipeline under AS 31.25.005(1). Money appropriated to the Large-Diameter Natural Gas Pipeline Project fund for the purpose of AS 31.25.005(4) and (5), the large-diameter natural gas pipeline project, is to be held in an account created within the fund for that purpose.

Section 6 amends the catchline for AS 31.25.120 to specify that the section applies to the creation of subsidiaries for an in-state natural gas pipeline project. A subsidiary corporation under this section may only use money appropriated for the in-state natural gas pipeline under AS 31.25.100.

Section 7 adds new section AS 31.25.122 to establish a subsidiary for a large-diameter natural gas pipeline project as a public corporation and a government instrumentality for administrative purposes but with a legal existence independent from the state and the AGDC. The purpose of the subsidiary is to acquire state equity interests in components of a large-diameter natural gas pipeline project, including pipelines, treatment, liquefaction and marine terminal facilities. The subsidiary may use money appropriated under AS 31.25.110 and may not to use money appropriated to the in-state natural gas pipeline project fund in AS 31.25.100. Subsection (b) creates a seven member board of directors of the subsidiary. Subsection (d) sets out purposes, (e) allows the AGDC to transfer assets, except for revenues as restricted by AS 31.25.100 to the subsidiary created under this section. Some of the statutory provisions applicable to the AGDC are incorporated to aid in the operation of the subsidiary. Subsection (f) relates to employees of the subsidiary while (g) describes the conditions of termination of the subsidiary.

Section 8 amends AS 31.25.390(5), the definition of “in-state natural gas pipeline”, by adding a reference to AS 31.25.005(1).

Section 9 adds new definitions in AS 31.25.390. New subsection (7) defines a “large-diameter natural gas pipeline project” and (8) defines a “subsidiary board” as meaning a subsidiary under AS 31 25.122.

Section 10 amends the authority of the commissioner of the Department of Natural Resources (DNR) by adding new paragraphs (10) – (13) in AS 38.05.020(b). Effective immediately, the DNR commissioner may enter into commercial agreements of not more than two years duration for project services related to the North Slope natural gas project. In consultation with the Commissioner of Revenue, the DNR commissioner may participate in negotiations associated with a North Slope natural gas project. A contract negotiated in which the state is a party would not be effective against the state without legislative authorization for the governor to execute the contract. Paragraph (12) permits the DNR commissioner to enter into confidentiality agreements to maintain confidentiality throughout contract negotiations and contract implementation. Final contracts subject to approval by the legislature would not be confidential. The legislature may be briefed on confidential information under paragraph (12) in committees held in executive session or under confidentiality agreements.

Section 11 adds new paragraph (13) to allow the DNR commissioner, in consultation with the commissioner of revenue, to take custody of gas delivered to the state under new AS 43.55.014(b), to manage project services and the disposition of gas delivered to the state under new AS 43.55.014(b).

Section 12 clarifies AS 38.05.180(i) with a conforming amendment that the exploration incentive credit may be applied against the oil and gas production tax levied under AS 43.55.011.

Sections 13 and 14 adds a new subsection (hh) to AS 38.05.180, which deals with oil and gas leasing, to permit the DNR commissioner to propose modifications to existing oil and gas leases relating to the state's ability to take royalty gas in kind or in value, the establishment of values for the state's royalty gas and deductions for transportation costs, and the fixation of royalty rates and modifications to net profit share terms in oil and gas leases. Modifications to existing oil and gas leases would require a written determination by the DNR commissioner that a North Slope natural gas project has sufficient financial commitment and commitment of gas from the leases to be modified, in addition to concurrence of the lessees to the modification.

Sections 15 through 18 amend AS 38.05.183, related to sales of royalty oil or gas, by adding references to gas delivered to the state under AS 43.55.014(b), the levy of production tax on gas in-kind for certain North Slope leases. The amendments ensure that gas delivered to the state under AS 43.55.014(b) is treated in the same manner as royalty gas taken in kind.

Section 19 adds two new subsections (26) and (27) in AS 38.05.965. Subsection (26) defines "North Slope natural gas project;" subsection (27) defines "project services."

Sections 20 and 21 amend AS 40.25.100 related to the confidentiality of tax information to clearly establish as confidential information related to contract negotiations for a North Slope natural gas project. Section 21 references new subsection (k) in AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the oil and gas production tax on gas in-kind and the amount of gas subject to that election.

Section 22 amends AS 40.25.120(a) to establish an exception in public records for information confidential under the new provisions of AS 38.05.020(b) (related to contract negotiations for a North Slope natural gas project).

Sections 23 and 24 amend the authority of the commissioner of the Department of Revenue (DOR) by adding new paragraphs (16) and (17) in AS 43.05.010. Effective immediately, paragraph (16) provides that the DOR commissioner may consult with the DNR commissioner on negotiations associated with a North Slope natural gas project. Section 24 amends AS 43.05.010 by adding paragraph (17) to provide that the DOR commissioner direct the disposition of revenues received from gas delivered to the state under AS 43.55.014(b) by entering into agreements with the DNR commissioner.

Section 25 adds new subsection (k) to AS 43.05.230 to except from taxpayer confidentiality provisions the name of each person that makes an election to pay the oil and gas production tax on gas in-kind and the amount of gas subject to that election.

Section 26 amends AS 43.20.144(f) to clarify that gas subject to an election to pay the oil and gas production tax on gas in-kind under AS 43.55.014 is included the extraction factor in the Alaska Net Income Tax Act.

Section 27 amends AS 43.55.011(e), the levy of the oil and gas production tax, to add reference to the separate levy under AS 43.55.014 for certain North Slope gas. For oil and gas produced after January 1, 2014 and before January 1, 2022, AS 43.55.011(e)(2) would levy on producers of oil and gas produced each calendar year a flat rate tax of 35 percent of the production tax value of taxable oil and gas produced from each lease or property in the state. No change is made to current tax ceilings that apply to Cook Inlet oil and gas, gas produced outside the Cook Inlet basin and used in the state, and oil and gas produced from new fields outside the Cook Inlet basin and south of the North Slope.

For oil and gas produced on or after January 1, 2022 (after expiration of the tax ceilings for Cook Inlet oil and gas, and gas produced outside the Cook Inlet basin and used in the state), AS 43.55.011(e)(3) would levy on producers of oil produced each calendar year a flat tax rate of 35 percent of the production tax value of taxable oil produced from each lease or property in the state and on producers of gas, and a flat tax rate of 10.5 percent of the gross value at the point of production of gas produced from each lease or property in the state. (Oil and gas subject to AS 43.55.011(p) continue to be taxed at no more than four percent of gross value at the point of production until 2027.) The tax on gas for which the DOR commissioner has approved an election to pay in kind would be levied under AS 43.55.014.

Section 28 amends AS 43.55.011(f), the alternate minimum tax on North Slope oil and gas, to retain the current minimum tax until January 1, 2022. After that date, the minimum tax would apply to oil produced on the North Slope. A minor amendment adds the reference to the tax applying to leases or properties "that include land" to ensure that property that straddles 68 degrees North latitude will be considered north of 68 degrees North latitude for purpose of the alternate minimum tax.

Section 29 adds AS 43.55.014 which allows producers to make an irrevocable election, under regulations adopted by DOR, to pay the oil and gas production tax in kind levied by this section in lieu of the tax otherwise levied on gas by AS 43.55.011(e). The election can only be made for gas produced from oil and gas leases whose terms have been modified under AS 38.05.180(hh). The levy would be 10.5 percent of the taxable gas when and as the gas is produced. The producer would pay the tax by delivering the gas to the delivery point specified by the state. The DNR would manage the custody and disposition of gas delivered to the state. Gas subject to this provision would not include gas flared, released, or allowed to escape upstream of the point of production, or to gas used in lease operations or for repressuring. Tax deficiencies and interest and penalties on any tax deficiency would be accounted for as if the tax was levied for money under AS 43.55.011(e). This section would take effect on January 1, 2015 to be applied to gas produced from certain North Slope leases on and after January 1, 2022.

Sections 30 and 31 are conforming amendments to the oil and gas producer education credit, AS 43.55.019, to clarify that the credit can be applied to tax liability under AS 43.55.011(e) only.

Section 32 amends AS 43.55.020(a), monthly installment payments of estimated tax, to add provisions for payment of tax after January 1, 2022 and to clarify the tax rates that apply to oil and gas produced

after a certain date. Monthly installment payments for oil and gas produced on or after January 1, 2022 are in new subsection (a)(7).

Sections 33 and 34 are conforming changes to AS 43.55.020, monthly installment payments. Subsection (g) is amended to account for new tax provisions for oil and gas produced after January 1, 2022. A similar conforming change is made in AS 43.55.020(h) to account for interest on overpayments of installment payments.

Sections 35 and 36 amends AS 43.55.020(l) and adds subsection (m), related to making settlements by a producer with private landowner royalty owner, to account for making a settlement with the royalty owner for gas taxable before January 1, 2022 and under new AS 43.55.014.

Section 37 amends AS 43.55.030, annual statements by producers and explorers, to require reporting of the amount of gas produced from a lease or property for which tax is levied under AS 43.55.014 and the amount of gas delivered to the state under AS 43.55.014.

Section 38 amends AS 43.55.160(a), calculation of annual production tax values, to clarify and conform to the levy of tax under AS 43.55.011(e)(2) for oil and gas produced before January 1, 2022.

Section 39 amends AS 43.55.160(e), related to determination of excess lease expenditures for the purpose of calculating a carried-forward loss credit, to account for annual production tax values for oil produced on and after January 1, 2022.

Section 40 amends AS 43.55.160(f), a 20 percent gross value reduction for certain oil and gas produced north of 68 degrees North latitude, so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

Section 41 amends AS 43.55.160(g), a 10 percent gross value reduction for certain oil and gas produced from a unit north of 68 degrees North latitude made up solely of leases that have a royalty share of more than 12.5 percent in amount or value of the production removed or sold from the lease so that gas produced on and after January 1, 2022 would not qualify for the gross value reduction in this section.

Section 42 amends AS 43.55.160, calculation of annual production tax values, to add a new subsection (h) for calculation of annual production tax values for oil produced on and after January 1, 2022. On and after January 1, 2022, gas would be taxed at a percentage of gross value. Accordingly, there would be no need to calculate a production tax value (gross value at point of production less lease expenditures) for gas. Producers would still calculate a production tax value of oil taxable under AS 43.55.011(e) for the segments set out in AS 43.55.160(h).

Section 43 makes a conforming amendment to AS 43.55.165, lease expenditures, to exclude as a deduction from lease expenditures the tax levied under AS 43.55.014.

Sections 44 through 46 amend, for purposes of the oil and gas production tax, the definitions of "gas processing plants" and "point of production" for gas to be upstream of either the first point where

accurately measured, the inlet of a pipeline transporting the gas to a gas treatment plant, or the inlet of any gas pipeline system transporting gas to market. Section 46 adds a definition of "gas treatment plant".

Section 47 makes conforming amendments to AS 43.98.030, the film production tax credit, to limit the applicability of the credit to the tax levied by AS 43.55.011.

Section 48 allows the DNR and the DOR to adopt regulations to implement this Act.

Section 49 instructs the revisor of statutes to make a title change to AS 38.05.183 to include AS 43.55.014(b).

Sections 50 and 51 set effective dates for different sections of the bill. Sections 1 -10, 12, 13 19, 20, 22, 23, 30, 31, 47 and 48 would be effective immediately. The other sections would be effective January 1, 2015.

AMENDMENTS

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"

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 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"

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"

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"

SUMMARY OF CHARGES

ALASKA STATE LEGISLATURE
SENATE FINANCE COMMITTEE

Senator Kevin Meyer, Co-Chair
State Capitol, Room 518
Juneau, Alaska 99801-1182
Phone: (907) 465-4945
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Sen.Kevin.Meyer@akleg.gov



Senator Pete Kelly, Co-Chair
State Capitol, Room 516
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Memo

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

March 13, 2014

Revision 2

By: Bruce Campbell *B. Campbell*

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

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.

LETTERS OF INTENT

SB 138

28-GS2806R
Bullock
3/12/14

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

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

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

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

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

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

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

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

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

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

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

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

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

8 (13) adopt an official seal;

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

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

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

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

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

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

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

25 (21) invest or reinvest, subject to its contracts with noteholders and
26 bondholders, money or funds held by the corporation, including funds in the in-state
27 natural gas pipeline fund (AS 31.25.100) and the Alaska liquefied natural gas
28 project fund (AS 31.25.110), in obligations or other securities or investments in
29 which banks or trust companies in the state may legally invest funds held in reserves
30 or sinking funds or funds not required for immediate disbursement, and in certificates
31 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,

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

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

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

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

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

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

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

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

26 **Sec. 31.25.110. Alaska liquefied natural gas project fund.** The Alaska
27 liquefied natural gas project fund is established in the corporation and consists of
28 money appropriated to it. The corporation shall determine fund management and may
29 contract with the Department of Revenue for fund management. If money is
30 appropriated to the fund to finance the cost of an Alaska liquefied natural gas project,
31 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

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

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

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

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

26 (2) provide a method for establishing a fair market value for each
27 component of the state's royalty gas and appropriate adjustments to reflect fair market
28 deductions for reasonable costs for treatment, transportation, and liquefaction for the
29 state's royalty gas from the North Slope to the destination market; in this paragraph,
30 "reasonable costs for treatment, transportation, and liquefaction" may not be greater
31 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

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

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

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

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

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

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

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

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

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(C) 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) 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) 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.

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

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

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

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

(d) If a deficiency in a tax levied by this section is assessed, or if a provision 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

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

3 (i) zero; or

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

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

14 (i) zero;

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

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

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

29 (i) zero; or

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

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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 under AS 43.55.160 for the oil or gas, respectively, produced from the lease or property from the gross value at the point of production of the oil or gas, respectively, produced from the lease or property during the month for which the installment payment is calculated;

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

(i) 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, 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;

(2) an amount calculated under (1)(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;

(3) an installment payment of the estimated tax levied by AS 43.55.011(i) for each lease or property 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

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

1 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 for the oil and gas under AS 43.55.160 from the gross value
4 at the point of production of the oil and gas produced from the leases or
5 properties during the month for which the installment payment is
6 calculated, but not less than zero; or

7 (ii) four percent 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, but not less than zero;

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

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

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

28 (i) zero;

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

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

3 (iii) 35 percent multiplied by the remainder obtained
4 by subtracting 1/12 of the producer's adjusted lease expenditures
5 for the calendar year of production under AS 43.55.165 and
6 43.55.170 that are deductible for the oil under AS 43.55.160(h)(1)
7 from the gross value at the point of production of the oil produced
8 from those leases or properties during the month for which the
9 installment payment is calculated, except that, for the purposes of
10 this calculation, a reduction from the gross value at the point of
11 production may apply for oil subject to AS 43.55.160(f) or
12 43.55.160(f) and (g);

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

19 (i) zero; or

20 (ii) 35 percent multiplied by the remainder obtained
21 by subtracting 1/12 of the producer's adjusted lease expenditures
22 for the calendar year of production under AS 43.55.165 and
23 43.55.170 that are deductible for the oil under AS 43.55.160(h)(2)
24 from the gross value at the point of production of the oil produced
25 from the leases or properties during the month for which the
26 installment payment is calculated;

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

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

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AS 43.55.170.

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

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

- (1) depreciation, depletion, or amortization;
- (2) oil or gas royalty payments, production payments, lease profit shares, or other payments or distributions of a share of oil or gas production, profit, or revenue, except that a producer's lease expenditures applicable to oil and gas produced from a lease issued under AS 38.05.180(f)(3)(B), (D), or (E) include the share of net profit paid to the state under that lease;
- (3) taxes based on or measured by net income;
- (4) interest or other financing charges or costs of raising equity or debt capital;
- (5) acquisition costs for a lease or property or exploration license;
- (6) costs arising from fraud, wilful misconduct, gross negligence, violation of law, or failure to comply with an obligation under a lease, permit, or license issued by the state or federal government;
- (7) fines or penalties imposed by law;
- (8) costs of arbitration, litigation, or other dispute resolution activities that involve the state or concern the rights or obligations among owners of interests in, or rights to production from, one or more leases or properties or a unit;
- (9) costs incurred in organizing a partnership, joint venture, or other business entity or arrangement;
- (10) amounts paid to indemnify the state; the exclusion provided by this paragraph does not apply to the costs of obtaining insurance or a surety bond from a third-party insurer or surety;
- (11) surcharges levied under AS 43.55.201 or 43.55.300;
- (12) an expenditure otherwise deductible under (b) of this section that is a result of an internal transfer, a transaction with an affiliate, or a transaction between related parties, or is otherwise not an arm's length transaction, unless the producer establishes to the satisfaction of the department that the amount of the expenditure does not exceed the fair market value of the expenditure;

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

5 (14) a tax levied under AS 43.55.011 or 43.55.014;

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

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

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

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

26 (19) costs incurred for repair, replacement, or deferred maintenance of
27 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
28 undertaken in response to a failure, problem, or event that results in an unscheduled
29 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for
30 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
31 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;

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

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

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

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

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

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

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

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

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

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

27 RESTRICTIONS ON EMPLOYMENT AFTER LEAVING STATE SERVICE FOR
28 CERTAIN PUBLIC OFFICERS. (a) Notwithstanding AS 39.52.180, a public officer who
29 leaves state service may not, for three years after leaving state service, represent, advise, assist
30 for compensation, or accept employment from a person or an affiliate of a person that was a
31 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.

ADOPTED 3/11/14

28-GS2806Y
Bullock
3/9/14

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 of the Alaska Gasline Development Corporation to
 2 advance an Alaska liquefied natural gas project; establishing programs for an in-state
 3 natural gas pipeline and an Alaska liquefied natural gas project; establishing the Alaska
 4 liquefied natural gas project fund; relating to the expedited review by state agencies or
 5 entities related to the review of natural gas projects; relating to the authority of the
 6 commissioner of natural resources to negotiate contracts related to North Slope natural
 7 gas projects, to enter into confidentiality agreements in support of contract negotiations
 8 and implementation, and to take custody of gas delivered to the state under an election
 9 to pay the gas production tax in gas; relating to the sale, exchange, or disposal of gas
 10 delivered to the state under an election to pay the gas production tax in gas; relating to
 11 the tax on oil production; relating to the tax on gas production; relating to the duties of
 12 the commissioner of revenue to direct the disposition of revenues received from gas

1 delivered to the state and to consult with the commissioner of natural resources on the
2 custody and disposition of gas delivered to the state; relating to the authority of the
3 commissioner of natural resources to propose modifications to existing state oil and gas
4 leases; making certain information provided to the Department of Natural Resources
5 and the Department of Revenue exempt from inspection as a public record; making
6 certain tax information related to an election to pay the gas production tax in gas
7 exempt from tax confidentiality provisions; relating to establishing under the oil and gas
8 production tax a gross tax rate for the production of gas after 2021; making the
9 alternate minimum tax on oil and gas produced north of 68 degrees North latitude after
10 2021 apply only to oil; relating to apportionment factors of the Alaska Net Income Tax
11 Act; authorizing a producer's election to pay the gas production tax in gas for certain
12 gas and relating to the authorization; relating to monthly installment payments of the oil
13 and gas production tax; relating to interest payments on monthly installment payments
14 of the oil and gas production tax; relating to settlements between producers and royalty
15 owners for oil and gas production tax; relating to annual statements by producers and
16 explorers; relating to annual production tax values; relating to lease expenditures;
17 amending the definition of gross value at the 'point of production' for gas for purposes
18 of the oil and gas production tax; adding definitions related to natural gas terms;
19 clarifying that credit may not be taken against the levy of the gas production tax for gas
20 paid in gas for purposes of the exploration incentive credit, the oil or gas producer
21 education credit, and the film production tax credit; requesting the governor to establish
22 an interim advisory board to advise the governor on municipal involvement in a North
23 Slope natural gas project; relating to the development by the Alaska Energy Authority,
24 in consultation with the Alaska Gasline Development Corporation, the Alaska Industrial

1 **Development and Export Authority, and the Department of Revenue, of a plan for**
2 **developing infrastructure to deliver affordable energy to areas of the state that will not**
3 **have direct access to a North Slope natural gas pipeline and to the recommendation by**
4 **the Alaska Energy Authority of a funding source for energy infrastructure**
5 **development; requiring the commissioner of revenue to develop a plan and suggest**
6 **legislation for municipalities, regional corporations, and residents of the state to acquire**
7 **ownership interests in a North Slope natural gas pipeline project; making conforming**
8 **amendments; and providing for an effective date."**

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

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

12 **LEGISLATIVE FINDINGS AND INTENT.** (a) The legislature finds that

13 (1) the future oil and gas development in the state is of vital public interest,
14 particularly the commercial development of the gas deposits from the North Slope; that
15 development will include major infrastructure components, including a natural gas pipeline,
16 associated infrastructure, a gas treatment facility, a liquefaction facility, and a marine
17 terminal;

18 (2) much of the infrastructure required for commercial development of North
19 Slope natural gas will be within the boundaries of local governmental entities located within
20 or along the natural gas pipeline route and at the pipeline terminus at tidewater;

21 (3) the development of North Slope natural gas will provide benefits to the
22 state including employment opportunities and royalty and tax revenues, including tax revenue
23 under AS 43.56 (Oil and Gas Exploration, Production, and Pipeline Transportation Property
24 Taxes), and could provide delivery of natural gas to communities along the natural gas
25 pipeline route from the North Slope to a terminus point with liquefaction and marine terminal
26 facilities;

27 (4) the commissioner of natural resources will be authorized, through this
28 legislation, to enter short-term commercial agreements and to negotiate with the developers

1 and other parties in order to secure the state's participation through contracts, which will be
2 presented to the legislature for authorization;

3 (5) the interests of the state and local governmental entities must be
4 considered in contract negotiations to protect the financial and other interests of the state and
5 those local governmental entities.

6 (b) It is therefore the intent of the legislature to provide the commissioner of natural
7 resources with the authority necessary to enter short-term commercial agreements and
8 negotiate contracts and develop terms for inclusion in proposed contracts, subject to
9 legislative approval, associated with a North Slope natural gas project and that the
10 commissioner of natural resources, in those negotiations, consider and suggest for
11 incorporation into contracts terms for state participation in a North Slope natural gas project
12 that include

13 (1) subject to confidentiality agreements, provisions for reasonable disclosure
14 of information related to the state's interest in a North Slope natural gas project including
15 liquefaction, to representatives of the state administration when those representatives are
16 acting in a proprietary capacity;

17 (2) access and pro-expansion principles, opportunities for delivery of gas to
18 Alaskans, payments in lieu of property taxes on a unit rate per throughput basis, and serial
19 impact payments to be paid by the developers of a North Slope natural gas project to help
20 offset increased services and other costs borne by the state and local governments;

21 (3) to the extent permitted by law, seek to negotiate separately with producers
22 of North Slope gas regarding the purchase or other disposition of liquefied natural gas made
23 from the state's share of natural gas delivered to a liquefaction facility in the state;

24 (4) to the extent permitted by law, provisions for labor agreements,
25 employment of Alaska residents, contracts with Alaska businesses, and provisions to work
26 with state job centers, associated services and job training services.

27 * **Sec. 2.** AS 31.25.005 is amended to read:

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

30 (1) develop and have primary responsibility for developing natural
31 gas pipelines, an Alaska liquefied natural gas project, and other transportation

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mechanisms to deliver natural gas in-state that benefits the state and the people of the state;

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

1 (7) [(3)] endeavor to develop natural gas pipelines and other
2 transportation mechanisms that offer commercially reasonable rates for shippers and
3 access for shippers who produce natural gas, including propane and other
4 hydrocarbons associated with natural gas other than oil, in the state.

5 * Sec. 3. AS 31.25.010 is amended to read:

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

18 * Sec. 4. AS 31.25.020(a) is amended to read:

19 (a) The corporation shall be governed by a board of directors consisting of
20 (1) five public members; and
21 (2) two individuals designated by the governor that are each the head
22 of a principal department of the state, except that the commissioner of natural
23 resources and the commissioner of revenue may not be designated to serve on the
24 board [UNLESS THE PROJECT FOR WHICH A LICENSE IS ISSUED UNDER
25 AS 43.90 HAS BEEN ABANDONED OR IS NO LONGER RECEIVING THE
26 INDUCEMENTS IN AS 43.90.110(a) OR THE COMMISSIONER OF NATURAL
27 RESOURCES AND THE COMMISSIONER OF REVENUE ARE NO LONGER
28 SIGNATORIES ON A VALID CONTRACT UNDER AS 43.90].

29 * Sec. 5. AS 31.25.040 is amended by adding a new subsection to read:

30 (c) To the maximum extent practicable, the board shall
31 (1) maximize the efficient use of state resources; and

1 (2) establish appropriate separation within the corporation by
 2 separating personnel and functions, and by other means to the extent that separation
 3 may be required by contract or applicable law for the purpose of screening and
 4 preventing the exchange of commercially sensitive information when developing an
 5 in-state natural gas pipeline, an Alaska liquefied natural gas project, and other
 6 transportation mechanisms to deliver natural gas in the state.

7 * **Sec. 6.** AS 31.25.080(a) is amended to read:

8 (a) In addition to other powers granted in this chapter, the corporation may

9 (1) determine the form of ownership and the operating structure of an
 10 in-state natural gas pipeline developed by the corporation and may enter into
 11 agreements with other persons for joint ownership, joint operation, or both of an in-
 12 state natural gas pipeline **or an Alaska liquefied natural gas project**;

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

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

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

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

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

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

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

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

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

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

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

18 (13) adopt an official seal;

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

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

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

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

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

31 (19) receive, administer, and comply with the conditions and

1 requirements of an appropriation, gift, grant, or donation of property or money;

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

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

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

18 **(23) except as provided in (g) of this section, acquire an ownership**
19 **or participation interest in an Alaska liquefied natural gas project, natural gas**
20 **treatment facilities, natural gas pipeline facilities, liquefaction facilities, marine**
21 **terminal facilities related to the infrastructure of an Alaska liquefied natural gas**
22 **project, an entity or joint venture that has an ownership interest in or is engaged**
23 **in the planning, financing, acquisition, maintenance, construction, and operation**
24 **of an Alaska liquefied natural gas project.**

25 * Sec. 7. AS 31.25.080(e) is amended to read:

26 (e) If commitments to acquire firm transportation capacity **for the in-state**
27 **natural gas pipeline** are received in an open season conducted by the corporation, the
28 corporation shall, within 10 days after accepting and executing the written
29 commitments received during the open season, report the results of the open season to
30 the president of the senate and the speaker of the house of representatives and inform
31 the public of the results of the open season through publication on the Internet website

1 of the corporation and in a press release or other announcement to the media. The
 2 results made public must include the name of each prospective shipper, the amount of
 3 capacity allocated, and the period of the commitment. If the corporation determines
 4 that the commitments received during the open season are not sufficient to permit the
 5 corporation to continue the development or construction of the natural gas pipeline,
 6 the corporation shall report that to the legislature within 30 days.

7 * **Sec. 8.** AS 31.25.080 is amended by adding a new subsection to read:

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

11 * **Sec. 9.** AS 31.25.090 is amended by adding a new subsection to read:

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

16 * **Sec. 10.** AS 31.25.100 is amended to read:

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

30 * **Sec. 11.** AS 31.25 is amended by adding a new section to read:

31 **Sec. 31.25.110. Alaska liquefied natural gas project fund.** The Alaska

1 liquefied natural gas project fund is established in the corporation and consists of
2 money appropriated to it. The corporation shall determine fund management and may
3 contract with the Department of Revenue for fund management. If money is
4 appropriated to the fund to finance the cost of an Alaska liquefied natural gas project,
5 the corporation shall create an account in the fund for that purpose and hold the money
6 appropriated for that purpose in that account. Interest and other income received on
7 money in the fund shall be separately accounted for and may be appropriated to the
8 fund. The corporation may use money appropriated to the fund without further
9 appropriation for the purpose of managing the fund, for purposes related to an Alaska
10 liquefied natural gas project, and for the purpose of transferring net revenue received
11 by the corporation related to equity interest, contracts, and other activities to the
12 appropriate fund as determined by the commissioner of revenue in consultation with
13 the commissioner of natural resources, but the corporation may not use the money
14 appropriated to the fund for the purposes described in AS 31.25.005(4).

15 * **Sec. 12.** AS 31.25.120 is amended to read:

16 **Sec. 31.25.120. Creation of subsidiaries.** The corporation may create
17 subsidiary corporations for the purpose of developing, constructing, operating, and
18 financing in-state natural gas pipeline projects or other transportation mechanisms; for
19 the purpose of aiding in the development, construction, operation, and financing of in-
20 state natural gas pipeline projects; or for the purpose of acquiring [THE STATE'S
21 ROYALTY SHARE OF NATURAL GAS,] natural gas from the North Slope, and
22 natural gas from other regions of the state, including the state's outer continental shelf,
23 and making that natural gas available to markets in the state, including the delivery of
24 natural gas, including propane and other hydrocarbons associated with natural gas
25 other than oil, to coastal communities in the state, or for export. A subsidiary
26 corporation created under this section may be incorporated under AS 10.20.146 -
27 10.20.166, or other law applicable to the incorporation of the subsidiary
28 corporation. Subject to the exceptions and limitations for the use of money
29 appropriated to the in-state natural gas pipeline fund (AS 31.25.100) and the
30 Alaska liquefied natural gas project fund (AS 31.25.110), the [. THE] corporation
31 may transfer assets of the corporation to a subsidiary created under this section. A

1 subsidiary created under this section may borrow money and issue bonds as evidence
2 of that borrowing and has all the powers of the corporation that the corporation grants
3 to it. Unless otherwise provided by the corporation, the debts, liabilities, and
4 obligations of a subsidiary corporation created under this section are not the debts,
5 liabilities, or obligations of the corporation.

6 * **Sec. 13.** AS 31.25.140(c) is amended to read:

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

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

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

17 (B) materially impairing the operations or financial integrity of
18 the corporation; or

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

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

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

29 * **Sec. 14.** AS 31.25.390 is amended by adding a new paragraph to read:

30 (7) "Alaska liquefied natural gas project" means a natural gas project
31 as described in AS 31.25.005(4) that includes collectively, the Prudhoe Bay unit gas

1 transmission line, the Point Thomson unit gas transmission line, a gas pipeline, the gas
2 treatment plant, a liquefied natural gas plant, and a marine terminal; in this paragraph,

3 (A) "gas pipeline"

4 (i) means the main natural gas pipeline from the outlet
5 flange of the gas treatment plant on the North Slope to the inlet flange
6 of the liquefied natural gas plant located in the Southcentral region of
7 the state, which shall have off-take points along the pipeline for
8 deliveries of gas in the state;

9 (ii) does not include any gas lines downstream of any
10 off-take point between the gas treatment plant and the liquefied natural
11 gas plant;

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

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

22 (D) "marine terminal" means the terminal and those facilities
23 required to receive liquefied natural gas from the boundary of the liquefied
24 natural gas plant for marine transportation, including auxiliary vessels used in
25 the operation of the terminal;

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

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

1 * **Sec. 15.** AS 38.05.020(b) is amended to read:

2 (b) The commissioner may

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

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

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

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

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

19 (6) classify tracts for agricultural uses;

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

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

24 (B) transportation, marketing, and development costs render
25 the required development uneconomic;

26 (8) reconvey or relinquish land or an interest in land to the federal
27 government if

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

30 (B) the reconveyance or relinquishment is

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

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(ii) in the best interests of the state;

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

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

(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. 16. AS 38.05.020(b), as amended by sec. 15 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);

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

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

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

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

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

13 (6) classify tracts for agricultural uses;

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

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

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

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

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

24 (B) the reconveyance or relinquishment is

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

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

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

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

31 (11) in consultation with the commissioner of revenue, participate in

1 the negotiation of agreements that include balancing, marketing, disposition of natural
2 gas, and offtake and contracts and development of terms for inclusion in those
3 proposed agreements and contracts associated with a North Slope natural gas project;
4 an agreement or contract negotiated under this paragraph to which the state is a party
5 is not effective unless the legislature authorizes the governor to execute the agreement
6 or contract;

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

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

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

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

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

23 * Sec. 17. AS 38.05.180(i) is amended to read:

24 (i) The commissioner may provide for the establishment of an exploration
25 incentive credit system under which a lessee of state land drilling an exploratory well
26 on that land may earn credits based on [UPON] the footage drilled and the region in
27 which the well is situated. The commissioner may also provide for credits to be earned
28 by persons performing geophysical work on state land, if that work is performed
29 during the two seasons immediately preceding an announced lease sale and on land
30 included within the sale area and the geophysical information is made public
31 following the sale. Credits may not exceed 50 percent of the cost of the drilling or

1 geophysical work. Credits may be used during a limited period established by the
2 commissioner and may be assigned during that period. Credits may be applied against
3 (1) royalty and rental payments for oil and gas or for gas only payable to the state or
4 (2) taxes payable under AS 43.55.011 [AS 43.55]. A credit may not exceed 50 percent
5 of the payment toward which it is being applied. Amounts due the Alaska permanent
6 fund (AS 37.13.010) shall be calculated before the application of credits under this
7 subsection.

8 * **Sec. 18.** AS 38.05.180 is amended by adding new subsections to read:

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

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

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

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

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

5 (1) the modification

6 (A) is in the best interests of the state; and

7 (B) will materially improve the likelihood of a successful North
8 Slope natural gas project;

9 (2) the North Slope natural gas project has sufficient

10 (A) financial commitment for a work plan and budget
11 necessary to support major permits and regulatory filings required by state and
12 federal agencies; and

13 (B) commitment of gas by lessees; and

14 (3) the lease will produce hydrocarbons that will be transported on the
15 North Slope natural gas project during the initial project term.

16 * **Sec. 19.** AS 38.05.180(hh), as enacted in sec. 18 of this Act, is amended to read:

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

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

31 (2) provide a method for establishing a fair market value for each

1 component of the state's royalty gas and appropriate adjustments to reflect fair market
2 deductions for reasonable costs for treatment, transportation, and liquefaction for the
3 state's royalty gas from the North Slope to the destination market; in this paragraph,
4 "reasonable costs for treatment, transportation, and liquefaction" may not be greater
5 than actual costs;

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

10 * **Sec. 20.** AS 38.05.183(a) is amended to read:

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

20 * **Sec. 21.** AS 38.05.183(c) is amended to read:

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

29 * **Sec. 22.** AS 38.05.183(d) is amended to read:

30 (d) Oil or gas taken in kind by the state as its royalty share **or gas delivered to**
31 **the state under AS 43.55.014(b)** may not be sold or otherwise disposed of for export

1 from the state until the commissioner determines that the [ROYALTY-IN-KIND] oil
2 or gas is surplus to the present and projected intrastate domestic and industrial needs.
3 The commissioner shall make public, in writing, the specific findings and reasons on
4 which the determination is based.

5 * **Sec. 23.** AS 38.05.183(e) is amended to read:

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

14 (1) the cash value offered;

15 (2) the projected effects of the sale, exchange, or other disposal on the
16 economy of the state;

17 (3) the projected benefits of refining or processing the oil or gas in the
18 state;

19 (4) the ability of the prospective buyer to provide refined products or
20 by-products for distribution and sale in the state with price or supply benefits to the
21 citizens of the state; and

22 (5) the criteria listed in AS 38.06.070(a).

23 * **Sec. 24.** AS 38.05.965 is amended by adding new paragraphs to read:

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

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

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

4 * **Sec. 25.** AS 38.34.020(a) is amended to read:

5 (a) A state agency or entity conducting a review or taking action relating to **a**
6 **project under AS 31.25 (Alaska Gasline Development Corporation)** [THE IN-
7 STATE NATURAL GAS PIPELINE PROJECT UNDER THIS CHAPTER] shall
8 expedite the review or action in a manner consistent with the timely completion of the
9 project.

10 * **Sec. 26.** AS 38.34.020(b) is amended to read:

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

18 * **Sec. 27.** AS 38.34.020(c) is amended to read:

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

25 * **Sec. 28.** AS 40.25.100(a) is amended to read:

26 (a) Information in the possession of the Department of Revenue that discloses
27 the particulars of the business or affairs of a taxpayer or other person, **including**
28 **information under AS 38.05.020(b)(11) that is subject to a confidentiality**
29 **agreement under AS 38.05.020(b)(12),** is not a matter of public record, except as
30 provided in AS 43.05.230(i) or for purposes of investigation and law enforcement. The
31 information shall be kept confidential except when its production is required in an

1 official investigation, administrative adjudication under AS 43.05.405 - 43.05.499, or
2 court proceeding. These restrictions do not prohibit the publication of statistics
3 presented in a manner that prevents the identification of particular reports and items,
4 prohibit the publication of tax lists showing the names of taxpayers who are delinquent
5 and relevant information that may assist in the collection of delinquent taxes, or
6 prohibit the publication of records, proceedings, and decisions under AS 43.05.405 -
7 43.05.499.

8 * **Sec. 29.** AS 40.25.100, as amended by sec. 28 of this Act, is amended to read:

9 (a) Information in the possession of the Department of Revenue that discloses
10 the particulars of the business or affairs of a taxpayer or other person, including
11 information under AS 38.05.020(b)(11) that is subject to a confidentiality agreement
12 under AS 38.05.020(b)(12), is not a matter of public record, except as provided in
13 AS 43.05.230(i) or (k) or for purposes of investigation and law enforcement. The
14 information shall be kept confidential except when its production is required in an
15 official investigation, administrative adjudication under AS 43.05.405 - 43.05.499, or
16 court proceeding. These restrictions do not prohibit the publication of statistics
17 presented in a manner that prevents the identification of particular reports and items,
18 prohibit the publication of tax lists showing the names of taxpayers who are delinquent
19 and relevant information that may assist in the collection of delinquent taxes, or
20 prohibit the publication of records, proceedings, and decisions under AS 43.05.405 -
21 43.05.499.

22 * **Sec. 30.** AS 40.25.120(a) is amended to read:

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

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

27 (2) records pertaining to juveniles unless disclosure is authorized by
28 law;

29 (3) medical and related public health records;

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

1 (5) to the extent the records are required to be kept confidential under
2 20 U.S.C. 1232g and the regulations adopted under 20 U.S.C. 1232g in order to secure
3 or retain federal assistance;

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

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

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

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

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

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

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

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

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

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

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

30 (10) records or information pertaining to a plan, program, or
31 procedures for establishing, maintaining, or restoring security in the state, or to a

1 detailed description or evaluation of systems, facilities, or infrastructure in the state,
2 but only to the extent that the production of the records or information

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

5 (B) would disclose confidential guidelines for investigations or
6 enforcement and the disclosure could reasonably be expected to risk
7 circumvention of the law; or

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

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

15 (12) records that are

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

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

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

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

25 * **Sec. 31.** AS 43.05.010 is amended to read:

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

27 (1) exercise general supervision and direct the activities of the
28 Department of Revenue;

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

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

31 (4) keep a record of all departmental proceedings, record and file all

1 bonds, and assume custody of returns, reports, papers, and documents of the
2 department;

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

5 (6) keep a record of each order, process, and certificate issued by the
6 commissioner, and keep the record open to public inspection at all reasonable times;

7 (7) hold hearings and investigations necessary for the administration of
8 state tax and revenue laws;

9 (8) except as provided in AS 43.05.405 - 43.05.499 and in
10 AS 44.64.030, hear and determine appeals of a matter within the jurisdiction of the
11 Department of Revenue and enter orders on the appeals that are final unless reversed
12 or modified by the courts;

13 (9) issue subpoenas to require the attendance of witnesses and the
14 production of necessary books, papers, documents, correspondence, and other things;

15 (10) order the taking of depositions before a person competent to
16 administer oaths;

17 (11) administer oaths and take acknowledgments;

18 (12) request the attorney general for rulings on the interpretation of the
19 tax and revenue laws administered by the department;

20 (13) call upon the attorney general to institute actions for recovery of
21 unpaid taxes, fees, excises, additions to tax, penalties, and interest;

22 (14) issue warrants for the collection of unpaid tax penalties and
23 interest and take all steps necessary and proper to enforce full and complete
24 compliance with the tax, license, excise, and other revenue laws of the state;

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

28 * **Sec. 32.** AS 43.05.010, as amended by sec. 31 of this Act, is amended to read:

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

30 (1) exercise general supervision and direct the activities of the
31 Department of Revenue;

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

1 (16) consult with the commissioner of natural resources on negotiation
2 of contracts and development of terms for inclusion in proposed contracts associated
3 with a North Slope natural gas project;

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

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

9 (d) The sales factor of a taxpayer subject to this section is a fraction,
10 (1) the numerator of which is the sum of the following for the tax
11 period:

12 (A) the tariffs or fees allowed and received by or for the
13 taxpayer for transporting oil or gas, excluding gas delivered by the taxpayer
14 to the state under an election made under AS 43.55.014, by pipeline in this
15 state, regardless of whether the tariffs are paid by third parties or by entities
16 within the taxpayer's consolidated business; and

17 (B) the total sales of the taxpayer in this state, determined in
18 accordance with AS 43.19 (Multistate Tax Compact), but excluding those sales
19 already included in the tariffs described in (A) of this paragraph and
20 constructive or deemed sales of gas delivered to the state by the taxpayer
21 under an election made under AS 43.55.014; and

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

24 (A) the tariffs or fees allowed and received by or for the
25 taxpayer's consolidated business for transporting oil or gas, excluding gas
26 delivered by the taxpayer to the state under an election made under
27 AS 43.55.014, by pipeline everywhere, regardless of whether the tariffs are
28 paid by third parties or by entities within the taxpayer's consolidated business;
29 and

30 (B) the total sales of the taxpayer's consolidated business
31 everywhere, determined in accordance with AS 43.19 (Multistate Tax

1 Compact), but excluding those sales already included in the tariffs described in
2 (A) of this paragraph and constructive or deemed sales of gas delivered to
3 the state by the taxpayer under an election made under AS 43.55.014 or to
4 another taxing jurisdiction under a provision in that jurisdiction that is
5 similar to AS 43.55.014.

6 * Sec. 34. AS 43.20.144(d) is amended to read:

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

8 (1) the numerator of which is the sum of the following for the tax
9 period:

10 (A) the tariffs or fees allowed and received by or for the
11 taxpayer for transporting oil or gas other than gas delivered by the taxpayer
12 to the state under an election made under AS 43.55.014 by pipeline in this
13 state, regardless of whether the tariffs are paid by third parties or by entities
14 within the taxpayer's consolidated business; and

15 (B) the total sales of the taxpayer in this state, determined in
16 accordance with AS 43.19 (Multistate Tax Compact), but excluding those sales
17 already included in the tariffs described in (A) of this paragraph and
18 constructive or deemed sales of gas delivered to the state by the taxpayer
19 under an election made under AS 43.55.014; and

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

22 (A) the tariffs allowed and received by or for the taxpayer's
23 consolidated business for transporting oil or gas by pipeline everywhere,
24 regardless of whether the tariffs are paid by third parties or by entities within
25 the taxpayer's consolidated business; and

26 (B) the total sales of the taxpayer's consolidated business
27 everywhere, determined in accordance with AS 43.19 (Multistate Tax
28 Compact), but excluding those sales already included in the tariffs described in
29 (A) of this paragraph and constructive or deemed sales of gas delivered to
30 the state by the taxpayer under an election made under AS 43.55.014 or to
31 another taxing jurisdiction under a provision in that jurisdiction that is

1 similar to AS 43.55.014.

2 * **Sec. 35.** AS 43.20.144(f) is amended to read:

3 (f) The extraction factor of a taxpayer subject to this section is a fraction,

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

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

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

14 (2) the denominator of which is the sum of the following for the tax
15 period:

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

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

24 * **Sec. 36.** AS 43.55.011(e) is amended to read:

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

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

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

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

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

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

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

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

16 * Sec. 37. AS 43.55.011(f) is amended to read:

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

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

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

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

30 **(C) [(3)]** two percent of the gross value at the point of
31 production when the average price per barrel for Alaska North Slope crude oil

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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;

(C) 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) 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) 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.

* Sec. 38. AS 43.55 is amended by adding a new section to read:

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

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

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

(d) If a deficiency in a tax levied by this section is assessed, or if a provision of this title providing for interest or a penalty based on a percentage of a tax liability or tax deficiency applies to gas for which a tax is levied by this section, the amount of the deficiency and the tax amount on which the interest or penalty percentage is calculated is treated for the purpose only of that calculation as having been levied by AS 43.55.011(e) rather than this section.

(e) This section does not apply to gas

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

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

* Sec. 39. AS 43.55.019(a) is amended to read:

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

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

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

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

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

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

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

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

* **Sec. 40.** AS 43.55.019(a), as amended by sec. 21, ch. 92, SLA 2010, sec. 14, ch. 7, FSSLA 2011, and sec. 17, ch. 74, SLA 2012, is amended to read:

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

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

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

(3) by a state-operated vocational technical education and training

1 school; and

2 (4) for the Alaska higher education investment fund under
3 AS 37.14.750.

4 * **Sec. 41.** AS 43.55.019(e) is amended to read:

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

9 * **Sec. 42.** AS 43.55.020(a) is amended to read:

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

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

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

24 (i) zero; or

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

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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 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 under AS 43.55.160 for the oil or gas, respectively, produced from the lease or property from the gross value at the point of production of the oil or gas, respectively, produced from the lease or property during the month for which the installment payment is calculated;

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

(i) 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 for the oil and gas under AS 43.55.160 from the gross value
4 at the point of production of the oil and gas produced from the leases or
5 properties during the month for which the installment payment is
6 calculated, but not less than zero; or

7 (ii) four percent 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, but not less than zero;

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

19 (3) an installment payment of the estimated tax levied by
20 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
21 on the last day of the following month; the amount of the installment payment is the
22 sum of

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

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

31 (4) any amount of tax levied by AS 43.55.011, net of any credits

1 applied as allowed by law, that exceeds the total of the amounts due as installment
2 payments of estimated tax is due on March 31 of the year following the calendar year
3 of production;

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

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

16 (i) zero; or

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

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

26 (i) zero;

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

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

1 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 for the oil and gas under AS 43.55.160 from the gross value
4 at the point of production of the oil and gas produced from those leases
5 or properties during the month for which the installment payment is
6 calculated, except that, for the purposes of this calculation, a reduction
7 from the gross value at the point of production may apply for oil and
8 gas subject to AS 43.55.160(f) or (g);

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

11 (i) zero; or

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

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

21 (i) 35 percent multiplied by the remainder obtained by
22 subtracting 1/12 of the producer's adjusted lease expenditures for the
23 calendar year of production under AS 43.55.165 and 43.55.170 that are
24 deductible for the oil and gas under AS 43.55.160 from the gross value
25 at the point of production of the oil and gas produced from the leases or
26 properties during the month for which the installment payment is
27 calculated, but not less than zero; or

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

31 (6) an amount calculated under (5)(C) of this subsection for oil or gas

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

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

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

18 (i) zero;

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

24 (iii) 35 percent multiplied by the remainder obtained
25 by subtracting 1/12 of the producer's adjusted lease expenditures
26 for the calendar year of production under AS 43.55.165 and
27 43.55.170 that are deductible for the oil under AS 43.55.160(h)(1)
28 from the gross value at the point of production of the oil produced
29 from those leases or properties during the month for which the
30 installment payment is calculated, except that, for the purposes of
31 this calculation, a reduction from the gross value at the point of

1 production may apply for oil subject to AS 43.55.160(f) or
2 43.55.160(f) and (g);

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

9 (i) zero; or

10 (ii) 35 percent multiplied by the remainder obtained
11 by subtracting 1/12 of the producer's adjusted lease expenditures
12 for the calendar year of production under AS 43.55.165 and
13 43.55.170 that are deductible for the oil under AS 43.55.160(h)(2)
14 from the gross value at the point of production of the oil produced
15 from the leases or properties during the month for which the
16 installment payment is calculated;

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

20 (i) 35 percent multiplied by the remainder obtained
21 by subtracting 1/12 of the producer's adjusted lease expenditures
22 for the calendar year of production under AS 43.55.165 and
23 43.55.170 that are deductible for the oil under AS 43.55.160(h)(3)
24 from the gross value at the point of production of the oil produced
25 from the leases or properties during the month for which the
26 installment payment is calculated, but not less than zero; and

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

30 (D) for oil produced from leases or properties in the state,
31 no part of which is north of 68 degrees North latitude, other than leases or

1 properties subject to (B) or (C) of this paragraph, the greater of

2 (i) zero; or

3 (ii) 35 percent multiplied by the remainder obtained
4 by subtracting 1/12 of the producer's adjusted lease expenditures
5 for the calendar year of production under AS 43.55.165 and
6 43.55.170 that are deductible for the oil under AS 43.55.160(h)(4)
7 from the gross value at the point of production of the oil produced
8 from the leases or properties during the month for which the
9 installment payment is calculated;

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

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

19 (9) for purposes of the calculation under (1)(B)(ii), (5)(B)(ii), and
20 (7)(A)(ii) of this subsection, the applicable percentage of the gross value at the
21 point of production is determined under AS 43.55.011(f)(1) or (2) but substituting
22 the phrase "month for which the installment payment is calculated" in
23 AS 43.55.011(f)(1) and (2) for the phrase "calendar year for which the tax is
24 due."

25 * Sec. 43. AS 43.55.020(g) is amended to read:

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

27 (1) before January 1, 2014, an unpaid amount of an installment
28 payment required under (a)(1) - (3) of this section that is not paid when due bears
29 interest (A) at the rate provided for an underpayment under 26 U.S.C. 6621 (Internal
30 Revenue Code), as amended, compounded daily, from the date the installment
31 payment is due until March 31 following the calendar year of production, and (B) as

1 provided for a delinquent tax under AS 43.05.225 after that March 31; interest accrued
2 under (A) of this paragraph that remains unpaid after that March 31 is treated as an
3 addition to tax that bears interest under (B) of this paragraph; an unpaid amount of tax
4 due under (a)(4) of this section that is not paid when due bears interest as provided for
5 a delinquent tax under AS 43.05.225;

6 (2) on and after January 1, 2014, an unpaid amount of an installment
7 payment required under (a)(3), (5), [OR] (6), or (7) of this section that is not paid
8 when due bears interest (A) at the rate provided for an underpayment under 26 U.S.C.
9 6621 (Internal Revenue Code), as amended, compounded daily, from the date the
10 installment payment is due until March 31 following the calendar year of production,
11 and (B) as provided for a delinquent tax under AS 43.05.225 after that March 31;
12 interest accrued under (A) of this paragraph that remains unpaid after that March 31 is
13 treated as an addition to tax that bears interest under (B) of this paragraph; an unpaid
14 amount of tax due under (a)(4) of this section that is not paid when due bears interest
15 as provided for a delinquent tax under AS 43.05.225.

16 * **Sec. 44.** AS 43.55.020(h) is amended to read:

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

18 (1) an overpayment of an installment payment required under (a)(1),
19 (2), (3), (5), (6), or (7) [(a)(1) - (3), (5) OR (6)] of this section bears interest at the rate
20 provided for an overpayment under 26 U.S.C. 6621 (Internal Revenue Code), as
21 amended, compounded daily, from the later of the date the installment payment is due
22 or the date the overpayment is made, until the earlier of

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

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

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

30 (3) interest is allowed under (2) of this subsection only from a date that
31 is 90 days after the later of March 31 following the calendar year of production or the

1 date that the statement required under AS 43.55.030(a) is filed; interest is not allowed
2 if the overpayment was refunded within the 90-day period;

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

5 * **Sec. 45.** AS 43.55.020(l) is amended to read:

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

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

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

24 * **Sec. 46.** AS 43.55.020 is amended by adding a new subsection to read:

25 (m) For oil and gas produced on and after January 1, 2022, in making
26 settlement with the royalty owner for oil and gas that is taxable under AS 43.55.011,
27 the producer may deduct the amount of the tax paid on taxable royalty oil and gas, or
28 may deduct taxable royalty oil or gas equivalent in value at the time the tax becomes
29 due to the amount of the tax paid. If the total deductions of installment payments of
30 estimated tax for a calendar year exceed the actual tax for that calendar year, the
31 producer shall, before April 1 of the following year, refund the excess to the royalty

1 owner. In making settlement with the royalty owner for gas that is taxable under
2 AS 43.55.014, the producer may deduct the amount of the gas paid as in kind tax on
3 taxable royalty gas or may deduct the gross value at the point of production of the gas
4 paid as in-kind tax on taxable royalty gas. Unless otherwise agreed between the
5 producer and the royalty owner, the amount of the tax paid under AS 43.55.011(e) on
6 taxable royalty oil for a calendar year, other than oil the ownership or right to which
7 constitutes a landowner's royalty interest, is considered to be the gross value at the
8 point of production of the taxable royalty oil produced during the calendar year
9 multiplied by a figure that is a quotient, in which

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

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

15 * **Sec. 47.** AS 43.55.030(a) is amended to read:

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

21 (1) a description of each lease or property from which oil or gas was
22 produced, by name, legal description, lease number, or accounting codes assigned by
23 the department;

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

26 (3) the gross amount of oil and the gross amount of gas produced from
27 each lease or property, **separately identifying the gross amount of gas produced**
28 **from each oil and gas lease to which an effective election under AS 43.55.014(a)**
29 **applies, the amount of gas delivered to the state under AS 43.55.014(b),** and the
30 percentage of the gross amount of oil and gas owned by the producer;

31 (4) the gross value at the point of production of the oil and of the gas

1 produced from each lease or property owned by the producer and the costs of
2 transportation of the oil and gas;

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

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

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

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

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

14 * **Sec. 48.** AS 43.55.160(a) is amended to read:

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

17 (1) **AS 43.55.011(e)(1) and (2)** [AS 43.55.011(e)], the annual
18 production tax value of taxable oil, gas, or oil and gas produced during a calendar year
19 in a category for which a separate annual production tax value is required to be
20 calculated under this paragraph is the gross value at the point of production of that oil,
21 gas, or oil and gas taxable under AS 43.55.011(e), less the producer's lease
22 expenditures under AS 43.55.165 for the calendar year applicable to the oil, gas, or oil
23 and gas in that category produced by the producer during the calendar year, as
24 adjusted under AS 43.55.170; a separate annual production tax value shall be
25 calculated for

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

29 (B) oil and gas produced from leases or properties in the state
30 outside the Cook Inlet sedimentary basin, no part of which is north of 68
31 degrees North latitude and that qualifies for a tax credit under AS 43.55.024(a)

1 and (b); this subparagraph does not apply to

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

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

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

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

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

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

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

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

18 (A) oil and gas produced during a month from leases or
19 properties in the state that include land north of 68 degrees North latitude is the
20 gross value at the point of production of the oil and gas taxable under
21 AS 43.55.011(e) and produced by the producer from those leases or properties,
22 less 1/12 of the producer's lease expenditures under AS 43.55.165 for the
23 calendar year applicable to the oil and gas produced by the producer from
24 those leases or properties, as adjusted under AS 43.55.170; this subparagraph
25 does not apply to gas subject to AS 43.55.011(o);

26 (B) oil and gas produced during a month from leases or
27 properties in the state outside the Cook Inlet sedimentary basin, no part of
28 which is north of 68 degrees North latitude, is the gross value at the point of
29 production of the oil and gas taxable under AS 43.55.011(e) and produced by
30 the producer from those leases or properties, less 1/12 of the producer's lease
31 expenditures under AS 43.55.165 for the calendar year applicable to the oil and

1 gas produced by the producer from those leases or properties, as adjusted under
2 AS 43.55.170; this subparagraph does not apply to gas subject to
3 AS 43.55.011(o);

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

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

16 (E) gas produced during a month from a lease or property
17 outside the Cook Inlet sedimentary basin and used in the state is the gross
18 value at the point of production of that gas taxable under AS 43.55.011(e) and
19 produced by the producer from that lease or property, less 1/12 of the
20 producer's lease expenditures under AS 43.55.165 for the calendar year
21 applicable to that gas produced by the producer from that lease or property, as
22 adjusted under AS 43.55.170.

23 * **Sec. 49.** AS 43.55.160(e) is amended to read:

24 (e) Any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that
25 would otherwise be deductible by a producer in a calendar year but whose deduction
26 would cause an annual production tax value calculated under (a)(1) or (h) of this
27 section of taxable oil or gas produced during the calendar year to be less than zero
28 may be used to establish a carried-forward annual loss under AS 43.55.023(b).
29 However, the department shall provide by regulation a method to ensure that, for a
30 period for which a producer's tax liability is limited by AS 43.55.011(j), (k), (o), or
31 (p), any adjusted lease expenditures under AS 43.55.165 and 43.55.170 that would

1 otherwise be deductible by a producer for that period but whose deduction would
2 cause a production tax value calculated under (a)(1)(C), (D), (E), [OR] (F), or (h)(3)
3 of this section to be less than zero are accounted for as though the adjusted lease
4 expenditures had first been used as deductions in calculating the production tax values
5 of oil or gas subject to any of the limitations under AS 43.55.011(j), (k), (o), or (p) that
6 have positive production tax values so as to reduce the tax liability calculated without
7 regard to the limitation to the maximum amount provided for under the applicable
8 provision of AS 43.55.011(j), (k), (o), or (p). Only the amount of those adjusted lease
9 expenditures remaining after the accounting provided for under this subsection may be
10 used to establish a carried-forward annual loss under AS 43.55.023(b). In this
11 subsection, "producer" includes "explorer."

12 * **Sec. 50.** AS 43.55.160(f) is amended to read:

13 (f) On and after January 1, 2014, in the calculation of an annual production tax
14 value of a producer under (a)(1)(A) or (h)(1) [(a)(1)] of this section, the gross value at
15 the point of production of oil or gas produced from a lease or property north of 68
16 degrees North latitude meeting one or more of the following criteria is reduced by 20
17 percent: (1) the oil or gas is produced from a lease or property that does not contain a
18 lease that was within a unit on January 1, 2003; (2) the oil or gas is produced from a
19 participating area established after December 31, 2011, that is within a unit formed
20 under AS 38.05.180(p) before January 1, 2003, if the participating area does not
21 contain a reservoir that had previously been in a participating area established before
22 December 31, 2011; (3) the oil or gas is produced from acreage that was added to an
23 existing participating area by the Department of Natural Resources on and after
24 January 1, 2014, and the producer demonstrates to the department that the volume of
25 oil or gas produced is from acreage added to an existing participating area. This
26 subsection does not apply to gas produced before 2022 that is used in the state or to
27 gas produced on and after January 1, 2022. A reduction under this subsection may
28 not reduce the gross value at the point of production below zero. In this subsection,
29 "participating area" means a reservoir or portion of a reservoir producing or
30 contributing to production as approved by the Department of Natural Resources.

31 * **Sec. 51.** AS 43.55.160(g) is amended to read:

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

15 * **Sec. 52.** AS 43.55.160 is amended by adding a new subsection to read:

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

20 (1) from leases or properties in the state that include land north of 68
21 degrees North latitude is the gross value at the point of production of that oil, less the
22 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to
23 explore for, develop, or produce oil or gas deposits located in the state north of 68
24 degrees North latitude or located in leases or properties in the state that include land
25 north of 68 degrees North latitude, as adjusted under AS 43.55.170;

26 (2) before or during the last calendar year under AS 43.55.024(b) for
27 which the producer could take a tax credit under AS 43.55.024(a), from leases or
28 properties in the state outside the Cook Inlet sedimentary basin, no part of which is
29 north of 68 degrees North latitude, other than leases or properties subject to
30 AS 43.55.011(p), is the gross value at the point of production of that oil, less the
31 producer's lease expenditures under AS 43.55.165 for the calendar year incurred to

1 explore for, develop, or produce oil or gas deposits located in the state outside the
2 Cook Inlet sedimentary basin and south of 68 degrees North latitude, other than oil or
3 gas deposits located in a lease or property that includes land north of 68 degrees North
4 latitude or that is subject to AS 43.55.011(p) or, before January 1, 2027, from which
5 commercial production has not begun, as adjusted under AS 43.55.170;

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

13 (4) from leases or properties in the state no part of which is north of 68
14 degrees North latitude, other than leases or properties subject to (2) or (3) of this
15 subsection, is the gross value at the point of production of that oil less the producer's
16 lease expenditures under AS 43.55.165 for the calendar year incurred to explore for,
17 develop, or produce oil or gas deposits located in the state south of 68 degrees North
18 latitude, other than oil or gas deposits located in a lease or property in the state that
19 includes land north of 68 degrees North latitude, and excluding lease expenditures that
20 are deductible under (2) or (3) of this subsection or would be deductible under (2) or
21 (3) of this subsection if not prohibited by (b) of this section, as adjusted under
22 AS 43.55.170.

23 * **Sec. 53.** AS 43.55.165(e) is amended to read:

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

25 (1) depreciation, depletion, or amortization;

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

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

- 1 (4) interest or other financing charges or costs of raising equity or debt
2 capital;
- 3 (5) acquisition costs for a lease or property or exploration license;
- 4 (6) costs arising from fraud, wilful misconduct, gross negligence,
5 violation of law, or failure to comply with an obligation under a lease, permit, or
6 license issued by the state or federal government;
- 7 (7) fines or penalties imposed by law;
- 8 (8) costs of arbitration, litigation, or other dispute resolution activities
9 that involve the state or concern the rights or obligations among owners of interests in,
10 or rights to production from, one or more leases or properties or a unit;
- 11 (9) costs incurred in organizing a partnership, joint venture, or other
12 business entity or arrangement;
- 13 (10) amounts paid to indemnify the state; the exclusion provided by
14 this paragraph does not apply to the costs of obtaining insurance or a surety bond from
15 a third-party insurer or surety;
- 16 (11) surcharges levied under AS 43.55.201 or 43.55.300;
- 17 (12) an expenditure otherwise deductible under (b) of this section that
18 is a result of an internal transfer, a transaction with an affiliate, or a transaction
19 between related parties, or is otherwise not an arm's length transaction, unless the
20 producer establishes to the satisfaction of the department that the amount of the
21 expenditure does not exceed the fair market value of the expenditure;
- 22 (13) an expenditure incurred to purchase an interest in any corporation,
23 partnership, limited liability company, business trust, or any other business entity,
24 whether or not the transaction is treated as an asset sale for federal income tax
25 purposes;
- 26 (14) a tax levied under AS 43.55.011 or 43.55.014;
- 27 (15) costs incurred for dismantlement, removal, surrender, or
28 abandonment of a facility, pipeline, well pad, platform, or other structure, or for the
29 restoration of a lease, field, unit, area, tract of land, body of water, or right-of-way in
30 conjunction with dismantlement, removal, surrender, or abandonment; a cost is not
31 excluded under this paragraph if the dismantlement, removal, surrender, or

1 abandonment for which the cost is incurred is undertaken for the purpose of replacing,
2 renovating, or improving the facility, pipeline, well pad, platform, or other structure;

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

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

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

16 (19) costs incurred for repair, replacement, or deferred maintenance of
17 a facility, a pipeline, a structure, or equipment, other than a well, that results in or is
18 undertaken in response to a failure, problem, or event that results in an unscheduled
19 interruption of, or reduction in the rate of, oil or gas production; or costs incurred for
20 repair, replacement, or deferred maintenance of a facility, a pipeline, a structure, or
21 equipment, other than a well, that is undertaken in response to, or is otherwise
22 associated with, an unpermitted release of a hazardous substance or of gas; however,
23 costs under this paragraph that would otherwise constitute lease expenditures under (a)
24 and (b) of this section may be treated as lease expenditures if the department
25 determines that the repair or replacement is solely necessitated by an act of war, by an
26 unanticipated grave natural disaster or other natural phenomenon of an exceptional,
27 inevitable, and irresistible character, the effects of which could not have been
28 prevented or avoided by the exercise of due care or foresight, or by an intentional or
29 negligent act or omission of a third party, other than a party or its agents in privity of
30 contract with, or employed by, the producer or an operator acting for the producer, but
31 only if the producer or operator, as applicable, exercised due care in operating and

1 maintaining the facility, pipeline, structure, or equipment, and took reasonable
2 precautions against the act or omission of the third party and against the consequences
3 of the act or omission; in this paragraph,

4 (A) "costs incurred for repair, replacement, or deferred
5 maintenance of a facility, a pipeline, a structure, or equipment" includes costs
6 to dismantle and remove the facility, pipeline, structure, or equipment that is
7 being replaced;

8 (B) "hazardous substance" has the meaning given in
9 AS 46.03.826;

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

11 (20) costs incurred to construct, acquire, or operate a refinery or crude
12 oil topping plant, regardless of whether the products of the refinery or topping plant
13 are used in oil or gas exploration, development, or production operations; however, if
14 a producer owns a refinery or crude oil topping plant that is located on or near the
15 premises of the producer's lease or property in the state and that processes the
16 producer's oil produced from that lease or property into a product that the producer
17 uses in the operation of the lease or property in drilling for or producing oil or gas, the
18 producer's lease expenditures include the amount calculated by subtracting from the
19 fair market value of the product used the prevailing value, as determined under
20 AS 43.55.020(f), of the oil that is processed;

21 (21) costs of lobbying, public relations, public relations advertising, or
22 policy advocacy.

23 * **Sec. 54.** AS 43.55.900(10) is amended to read:

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

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

27 (B) is located upstream of the inlet of any pipeline
28 transporting gas to a gas treatment plant and upstream of the inlet of any gas
29 pipeline system transporting gas to a market;

30 * **Sec. 55.** AS 43.55.900(20) is amended to read:

31 (20) "point of production" means

1 (A) for oil, the automatic custody transfer meter or device
2 through which the oil enters into the facilities of a carrier pipeline or other
3 transportation carrier in a condition of pipeline quality; in the absence of an
4 automatic custody transfer meter or device, "point of production" means the
5 mechanism or device to measure the quantity of oil that has been approved by
6 the department for that purpose, through which the oil is tendered and accepted
7 in a condition of pipeline quality into the facilities of a carrier pipeline or other
8 transportation carrier or into a field topping plant;

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

11 (i) not subjected to or recovered by mechanical
12 separation or run through a gas processing plant, the **farthest upstream**
13 **of the** first point where the gas is accurately metered, **the inlet of any**
14 **pipeline transporting the gas to a gas treatment plant, or the inlet**
15 **of any gas pipeline system transporting gas to a market:**

16 (ii) subjected to or recovered by mechanical separation
17 but not run through a gas processing plant, the **farthest upstream of**
18 **the** first point where the gas is accurately metered after completion of
19 mechanical separation, **the inlet of any pipeline transporting the gas**
20 **to a gas treatment plant, or the inlet of any gas pipeline system**
21 **transporting gas to a market:**

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

27 (C) FOR GAS RUN THROUGH AN INTEGRATED GAS
28 PROCESSING PLANT AND GAS TREATMENT FACILITY THAT DOES
29 NOT ACCURATELY METER THE GAS AFTER THE GAS PROCESSING
30 AND BEFORE THE GAS TREATMENT, THE FIRST POINT WHERE GAS
31 PROCESSING IS COMPLETED OR WHERE GAS TREATMENT BEGINS,

1 WHICHEVER IS FURTHER UPSTREAM];

2 * **Sec. 56.** AS 43.55.900 is amended by adding a new paragraph to read:

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

5 * **Sec. 57.** AS 43.90.900(18) is amended to read:

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

8 * **Sec. 58.** AS 43.98.030(c) is amended to read:

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

14 * **Sec. 59.** AS 31.25.080(f) is repealed.

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

17 REQUESTING THE GOVERNOR TO ESTABLISH AN INTERIM ADVISORY
18 BOARD. The legislature requests the governor to establish an interim advisory board under
19 AS 44.19.028 to advise the governor on municipal involvement in a North Slope natural gas
20 project. Members of the advisory board may include representatives of municipalities, the
21 commissioner of natural resources, the commissioner of revenue, representatives of oil and
22 gas and gas only lessees on the North Slope, and representatives of other persons expected to
23 be directly involved in the development of a North Slope natural gas project. In this section,
24 "North Slope natural gas project" has the meaning given in AS 38.05.965, as amended by sec.
25 24 of this Act.

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

28 PLAN AND RECOMMENDATIONS TO THE LEGISLATURE ON
29 INFRASTRUCTURE NEEDED TO DELIVER AFFORDABLE ENERGY TO AREAS IN
30 THE STATE THAT DO NOT HAVE DIRECT ACCESS TO A NORTH SLOPE NATURAL
31 GAS PIPELINE. (a) The Alaska Energy Authority, in consultation with the Alaska Gasline

1 Development Corporation, the Alaska Industrial Development and Export Authority, and the
2 Department of Revenue, shall develop a plan for developing infrastructure to deliver more
3 affordable energy to areas of the state that are not expected to have direct access to a North
4 Slope natural gas pipeline. The plan must identify ownership options, different energy
5 sources, including fossil fuels, hydro projects, tidal, and other alternative energy sources, and
6 describe and recommend the means for generating, delivering, receiving, and storing energy
7 in the most cost-efficient manner. The Alaska Energy Authority may consider the
8 development of regional energy systems that can receive and store bulk fuel in quantity and
9 distribute that fuel as needed within the region.

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

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

17 * **Sec. 62.** The uncodified law of the State of Alaska is amended by adding a new section to
18 read:

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

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

31 (2) whether the ownership interest in a North Slope natural gas pipeline should

1 be acquired from the portion of a North Slope natural gas pipeline acquired by the state,
2 through the purchase of stock in a publicly traded corporation that invests in a North Slope
3 natural gas pipeline, or some other means;

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

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

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

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

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

22 (b) In this section,

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

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

29 * **Sec. 63.** The uncodified law of the State of Alaska is amended by adding a new section to
30 read:

31 **TRANSITION: REGULATIONS.** The Department of Revenue and the Department of

1 Natural Resources may adopt regulations to implement this Act. The regulations take effect
2 under AS 44.62 (Administrative Procedure Act), but not before the effective date of the
3 provisions of this Act being implemented.

4 * **Sec. 64.** Sections 1 - 15, 17, 18, 24 - 28, 30, 31, 39, 41, and 57 - 63 of this Act take effect
5 immediately under AS 01.10.070(c).

6 * **Sec. 65.** Section 40 of this Act takes effect January 1, 2021.

7 * **Sec. 66.** Except as provided in secs. 64 and 65 of this Act, this Act takes effect January 1,
8 2015.

FISCAL NOTES

FISCAL NOTE

STATE OF ALASKA
2014 LEGISLATIVE SESSION

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

Identifier (file name) Fund Cap-Large Diameter Pipeline Fund-1-21-14 Dept. Affected Fund Capitalization
 Title Commercial Production of North Slope Natural Gas Appropriation Caps spent as duplicated funds
 Allocation Large Diameter Natural Gas Pipeline
 Sponsor Rules by request of the Governor Project Fund
 Requester Governor OMB Component Number

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							
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		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1007	I/A Rcpts (Other)							
1061	CIP Rcpts (Other)							
		0.0	0.0	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** 83,714.0 (FY14) (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? _____ Discuss details in analysis section.

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

N/A, initial version of bill.

Prepared by Miles Baker, Director of Governmental Relations
 Division Alaska Gasline Development Corporation
 Approved by Dan Fauske, President
 Division Alaska Gasline Development Corporation

Phone (907) 330-6360
 Date/Time 1/20/14 12:00 AM
 Date 1/20/2014

FISCAL NOTE ANALYSIS #1

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 138

Analysis

This fiscal note capitalizes the fund at \$83,714.0. The bill has an immediate effective date and thus requires the FY14 capitalization of the fund.

FISCAL NOTE

STATE OF ALASKA
2014 LEGISLATIVE SESSION

Bill Version SB 138
 Fiscal Note Number 2
 (S) Publish Date 1/24/14

Identifier (file name) DCCED-AGDC-AKLNG-1-21-14 Dept. Affected Commerce, Community and Economic Developm
 Title Commercial Production of North Slope Natural Gas Appropriation Alaska Gasline Development corp.
 Allocation New
 Sponsor Rules by request of the Governor
 Requester Governor OMB Component Number _____

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							
Personal Services	410.0		410.0	410.0			
Travel	432.0		432.0				
Services	2,960.0		2,960.0				
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	3,802.0	0.0	3,802.0	410.0	0.0	0.0	0.0

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1007	I/A Rcpts (Other)							
1178	temp code (UGF)	3,802.0		3,802.0	410.0			
		3,802.0	0.0	3,802.0	410.0	0.0	0.0	0.0

POSITIONS								
Full-time		1		1	1			
Part-time								
Temporary								

CHANGE IN REVENUES							

Estimated SUPPLEMENTAL (FY14) operating costs 700.0 (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) **FY 14 Capital Request is \$83.7 million**

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? _____ Discuss details in analysis section.

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

N/A, initial version of bill.

Prepared by Miles Baker, Director of Governmental Relations
 Division Alaska Gasline Development Corporation
 Approved by Dan Fauske, President
 Division Alaska Gasline Development Corporation

Phone (907) 330-6360
 Date/Time 1/20/14 5:35 PM
 Date 1/20/2014

FISCAL NOTE ANALYSIS #2

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 138

Analysis

This bill would authorize the Alaska Gasline Development Corporation (AGDC) to participate in advancing a large-diameter natural gas pipeline project (AKLNG) in addition to the in-state natural gas pipeline project described in AS 31.25.005 (1), commonly known as the Alaska Stand Alone Pipeline (ASAP). In its current form, the bill does the following:

Authorizes AGDC to develop, finance, construct and operate facilities for natural gas liquefaction and treatment associated with a large-diameter natural gas pipeline (AKLNG) project.

Establishes a new subsidiary corporation within AGDC for the purpose of advancing the corporation's AKLNG efforts. Identifies the composition of the board of directors for the new subsidiary corporation and addresses other administrative issues related to that board.

Establishes a new Large-Diameter Natural Gas Pipeline Project Fund to fund the AGDC's involvement in AKLNG project.

Restricts funds appropriated to the In-State Natural Gas Pipeline Fund (1229) solely for work associated with the ASAP project, and restricts funds appropriated to the new Large-Diameter Natural Gas Pipeline Project Fund to work associated with the large-diameter, AKLNG project.

Operating Costs:

The operating costs associated with AGDC's involvement with the AKLNG project are estimated to be \$700.0 for FY 14, \$3,802.0 for each of the first two years (FY15 & FY16) and \$410.0 for FY17, for a total of \$8,714.0. AGDC would draw these funds from the new Large-Diameter Natural Gas Pipeline Project Fund. Operating costs consist of personal services, travel and contractual services associated with negotiating multiple commercial contracts relative to the state's participation in the AKLNG project. The one position shown is for a senior executive level employee with an oil & gas commercial background that will act as the Corporation's chief negotiator for the commercial and legal agreements relating to the AKLNG Project.

Capital Costs:

The capital costs associated with AGDC's involvement in the pre-feed phase of the AKLNG project are estimated to be \$75.0 million. The project would begin immediately and those funds would begin to be drawn upon passage of enabling legislation in FY 14. AGDC would draw these funds out of the new Large-Diameter Natural Gas Pipeline Project Fund.

FISCAL NOTE

STATE OF ALASKA
2014 LEGISLATIVE SESSION

Bill Version SB 138
 Fiscal Note Number 3
 (S) Publish Date 1/24/14

Identifier (file name) DNR-NSG-1-21-14 Dept. Affected Natural Resources
 Title Commercial Production of North Slope Natural Gas Appropriation Administration & Support Services
 Allocation New
 Sponsor Rules by Request of the Governor
 Requester Governor OMB Component Number _____

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	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		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF	8,961.7		8,961.7			
1005	GF/Prgm (DGF)						
1007	I/A Rcpts (Other)						
1156	Rcpt Svcs (DGF)						
TOTAL		8,961.7	0.0	8,961.7	***	***	***

POSITIONS							
Full-time		6		6			
Part-time							
Temporary							

CHANGE IN REVENUES							

Estimated SUPPLEMENTAL (FY14) operating costs 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY15) costs 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? 3/31/2015 Discuss details in analysis section.

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

Initial Version

Prepared by Esther Tempel, Legislative Liaison
 Division Commissioner's Office
 Approved by Joe Balash, Commissioner
 Division Department of Natural Resources

Phone 465-4730
 Date/Time 1/20/14 12:30 PM
 Date 1/20/2014

FISCAL NOTE ANALYSIS #3

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 138

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. They 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, 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.

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.

PUBLIC TESTIMONY

Senator,

March 11, 2014

I am prompted to write each of you to express my growing concern over a major uncertainty associated with Senate Bill 138 – that is, how much revenue will the State lose by turning over to TransCanada what would otherwise be the State's interest in the gasline?

SB 138 contains two parts: the Heads of Agreement which I urge that you pass this session. This brings gas owners and the State in alignment as each party owns North Slope gas.

The second part is the MOU between the State and Trans Canada. Unlike the 2007 AGIA agreement, the new MOU would pay for TransCanada's services with what otherwise would be the State's equity interest in the gas line. The tariff to the State is fixed at 12%, which is inflation proofed. This tariff is more than twice what the State could borrow by issuing revenue bonds or tax-exempt bonds.

Reports have noted that the MOU is a very complex document. Some of the lawyers who have appeared at the committee hearings of jurisdiction acknowledge parts are difficult to comprehend, let alone explain. Any legislator who takes the time to try to digest the document would agree.

Some take comfort in their belief that the MOU is non-binding and the state can "take the off ramp at any time". This can be unrealistic. Take a quick look back at 2007 when TC entered in to the first AGIA agreement with the state. So far the state has expended more than \$300 million with more to come, and we have yet to get a full explanation of what the State received for its money.

Commissioner of Revenue Rodell stated that with TC's participation the cost to the state would be \$300 million annually in lost revenue once the gas begins to flow. The argument favoring this approach is that the capital costs of the project would be in the billions and would come at a time (2015-2021) of declining State revenues. TC would get the State's share of the gasline by fronting these costs.

Commissioner Rodell said that the cost of lost revenue was worth the financing that TC would provide.

Really? Why have we not seen a side by side comparison of the costs and rewards to the State of TC holding the State's share of the pipeline with the costs and rewards to the State of the State holding the State's share of the pipeline.

This is a major policy call that has taken place without Legislative scrutiny.

There are major costs to the State of doing this. The "loan" is risk free to TC because the State pays all of its costs, including depreciation for TC's up front capital costs (Exhibit C Item 6) and an inflation proofed cost of money at a base rate of 5%. Moreover, TransCanada will simply use

the State's Take or Pay agreement to transport our gas as security for the obligation it undertakes to pay for the State's share.

What is the State's alternative? There has been no discussion in the Legislature about going to the investment market to determine whether revenue bonds or other financing is available that would not require the state to pay down its savings during the 8 to 10 years before revenue starts to flow and would not require the state to give up its equity interest in the gas line.

Other questions remain yet to be answered:

- Why share pipeline ownership with a non-gas owning company when the producers have the capacity to, and very well may, construct the LNG line themselves?
- Having repaid 90% of TC's expense for its work in the pipeline, what is the justification for TC to obtain any portion of the state's equity share?
- Why the special treatment for this particular company? Why not simply pay TransCanada for its services like any other company that provides services to the state?

When I was in the banking business, one of the rules of the road for a lending officer, was if you were lending your own personal funds, would you risk making the loan? Knowing what you know, but more importantly, being concerned about what you don't know, are key factors in making this call?

A prudent approach would be for the Legislature to advance passage of the HOA this session. Then between sessions develop alternate means of financing Alaska's equity portion of the gas line, so that Alaska does not "expend-down" its savings in the 8 to 10 years before first gas flows and the state can retain its equity.

Best wishes for a successful session.

Sincerely,

Frank H. Murkowski

ALASKA AFL-CIO

3333 Denali Street, Suite 125 · Anchorage, Alaska 99503 · 907-258-6284 · Fax 777-7276

VINCE BELTRAMI
Executive President



BRUCE LUDWIG
Secretary / Treasurer

Dear Senator Kelly, Co Chair Senate Finance Committee:

Per our conversation on the Project Labor Agreement issue in SB 138 intent language, I am providing you with the following information.

A PLA is the only legal way to guarantee local hire. The referral of applicants by each individual union hall must comply with the published rules governing its referral system and/or the appropriate craft apprenticeship program. These referral rules establish referral priorities based on training, minimum qualifications, experience in the industry and area residence in accordance with Title 29, Chapter 7, Subchapter II, of the National Labor Relations Act (NLRA). The NLRA is unique in that it makes union referral under a bonafide collective bargaining agreement (including a PLA) the only legally enforceable method for establishing a resident hire preference.

Under a PLA, contractors make exact bids. Costs are established for labor. Those costs include wages and benefits including health insurance, and workers' compensation.

A typical PLA includes no-strike, no lock-out agreements. And for additional headache relief, a PLA includes procedures for settling - quickly - any problems or disputes that might develop during the project.

A project under a PLA can be bid on by union and non-union contractors. PLAs never restrict bidding solely to union contractors. A PLA is available to any contractor willing to accept the terms of the agreement.

The project contractor would be required to work under the terms of the PLA on that project only. The agreement would not affect any other work or employees the contractor has outside the project.

A non-union contractor is allowed to bring their employees with them to the project. No their employees do not have to join the union but would be required to pay an agency fee if they choose not to join.

An agency fee payer is entitled to all the union protections and negotiated benefits under the PLA.

The non-union employee working under the PLA would be eligible for medical benefits provided under the agreement after reaching and maintaining the minimum hours bank.

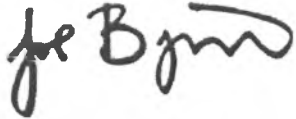
In the PLA negotiations the pension funds are open to discussion and agreement on a plan that covers the needs of the parties.

SCANNED
MAR 07 2014

Doniece Gott

From: Sen. Pete Kelly
Sent: Friday, March 07, 2014 9:22 AM
To: Senate Finance Committee
Subject: FW: natural gas pipeline bill SB 138

Public testimony



Joe Byrnes

Staff for Senator Pete Kelly
907-456-3709



From: George Phipps [<mailto:akgeoak48@gmail.com>]

Sent: Friday, March 07, 2014 04:40

To: Sen. Kevin Meyer; Sen. Pete Kelly; Sen. Anna Fairclough; Sen. Mike Dunleavy; Sen. Lyman Hoffman; Sen. Donny Olson; Sen. Click Bishop

Subject: natural gas pipeline bill SB 138

Dear Senators,

I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires, apprentices, and local contractors are on the project.

Sincerely, George Phipps
4376 Dartmouth Rd #18
Fairbanks, Am 99709

Doniece Gott

From: Sen. Pete Kelly
Sent: Friday, March 07, 2014 9:23 AM
To: Senate Finance Committee
Subject: FW: SB 138

Public testimony

Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709

-----Original Message-----

From: Cheryl Venechuk [<mailto:cherylvenechuk@hotmail.com>]
Sent: Thursday, March 06, 2014 20:37
To: Sen. Mike Dunleavy
Cc: Sen. Kevin Meyer; Sen. Pete Kelly; Sen. Anna Fairclough; Senator.Mike.Dunleavy@akleg.gov; Sen. Click Bishop; Sen. Donny Olson; Sen. Lyman Hoffman
Subject: SB 138

Dear Senators,

I greatly support the use of a Project Labor Agreement (PLA) in building a large diameter natural gas line, and the intent language in SB 138. Living in rural Alaska, I depend on local hire to get a good job so I can pay my bills which make the economy work. We are a hard working family, I have a child at the University of Alaska Fairbanks and an 8th grader at Tri-Valley School. We are surveyors, coal miners, raised five children here which all live and work in Alaska. I understand sacrifice for country and fellow man as one of my children is a Captain in the United States Marine Corp. We are asking you, to remember those who care and work hard to make the State of Alaska a wonderful place to live, and raise our children. God Bless America!

Sincerely,

Cheryl Venechuk
PO Box 338
Healy
Alaska. 99743

Doniece Gott

From: Sen. Pete Kelly
Sent: Friday, March 07, 2014 9:26 AM
To: Senate Finance Committee
Subject: FW: P

Public testimony



Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709



From: sabrina martino [<mailto:sabrina.m.martino@gmail.com>]
Sent: Thursday, March 06, 2014 18:00
To: Sen. Pete Kelly; Sen. Anna Fairclough; Sen. Click Bishop; Sen. Donny Olson; Sherry Ingham
Subject: P

Dear Senators,

I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires, apprentices, and local contractors are on the project.

Sincerely,
Sabrina Martinola

Doniece Gott

From: Sen. Pete Kelly
Sent: Wednesday, March 05, 2014 3:52 PM
To: Senate Finance Committee
Subject: FW: CS (RES) SB 138 Governor's gas pipeline bill - Alaska Pipeline employer

Public testimony



Joe Byrnes

Staff for Senator Pete Kelly
907-456-3709



From: Matthews, Dave [<mailto:DMatthews@pricegregory.com>]
Sent: Wednesday, March 05, 2014 15:46
To: Sen. Pete Kelly; Sen. Kevin Meyer
Cc: Sen. Anna Fairclough; Sen.Bishop.Click@akleg.gov; Sen. Mike Dunleavy; Sen. Donny Olson; Sen. Lyman Hoffman
Subject: CS (RES) SB 138 Governor's gas pipeline bill - Alaska Pipeline employer

Senator Mike Kelly and Kevin Meyer

Price Gregory International is a long time Alaska pipeline contractor who first came to the State in 1974 to build Section 3 of the TAPS. We have remained in Alaska since then, helping with infrastructure development projects. We have an understanding of the Alaska labor market and resource capacities. We are also a National and International company performing all aspects of large diameter long haul pipeline planning and installation services.

I understand the Governor's gas pipeline bill is now working in Senate Finance. I write to you this note and ask you support the intent language incorporated in the Resource CS for SB 138. It is good for Alaska, good for Alaskan's and good for Alaskan contractors.

Thank you

David L. Matthews

Vice President and Alaska Area Manager

Price Gregory International, Inc.

dmatthews@pricegregory.com

Ph: 907-278-4400

Fax: 907-278-3255



PRICE GREGORY

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 10:21 AM
To: Senate Finance Committee
Subject: FW: Project Labor Agreement

Public testimony



Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709



From: Janie [mailto:jwilliams@alaska.net]
Sent: Thursday, March 06, 2014 10:10
To: Sen. Pete Kelly
Subject: Project Labor Agreement

Dear Mr. Kelly,

I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language SB 138. PLAs are the only legal way to insure that local hires, apprentices, and local contractrs are on the project. This is crucial both to our state and our local economies.

Sincerely,

Jane Williams
1963 Gilmore Trail
Fairbanks, Alaska 99712

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 10:32 AM
To: Senate Finance Committee
Subject: FW: Keep the "Intent" Language

Public testimony



Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709



From: jacob howdeshell [<mailto:howdyy21@hotmail.com>]
Sent: Thursday, March 06, 2014 10:28
To: Sen. Kevin Meyer; Sen. Pete Kelly; Sen. Anna Fairclough; Senator.Mike.Dunleavey@akleg.gov; Sen. Click Bishop;
Sen. Donny Olson; Sen. Lyman Hoffman
Subject: Keep the "Intent" Language

Dear Senators,

I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires, apprentices, and local contractors are on the project. If we are to keep the workforce local, Alaska needs legally enforceable language that supports the training and recruitment of skilled local labor. This continues to spur on economic growth in all sectors in Alaska, as the earnings for the majority of the workforce will stay in our respective communities.

Sincerely,

Jacob A. Howdeshell


928 Faultline St. Apt. 4

North Pole, AK 99705

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 10:20 AM
To: Senate Finance Committee
Subject: FW: SB 138

Public testimony



Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709



From: wilbur2 [mailto:wilbur2@alaska.net]
Sent: Thursday, March 06, 2014 10:07
To: Sen. Pete Kelly
Cc: Sen. Kevin Meyer; Sen. Pete Kelly; Sen. Anna Fairclough; Senator.Mike.Dunleavy@akleg.gov; Sen. Click Bishop; Sen. Donny Olson; Sen. Lyman Hoffman
Subject: SB 138

Dear Senators,

I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires are on the project. I am a retired union worker and will vote against anyone who doesn't support local hire. For me this trumps all other political issues in this state.

Sincerely,

Paul Jagow

PO Box 72257,

Fairbanks, Alaska 99707

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 11:25 AM
To: Senate Finance Committee
Subject: FW: sb138

Public testimony



Joe Byrnes

Staff for Senator Pete Kelly

907-456-3709



From: whill [<mailto:whill@alaska.net>]
Sent: Thursday, March 06, 2014 11:03
To: Sen. Kevin Meyer; Sen. Pete Kelly; Sen. Anna Fairclough; Senator.Mike.Dunleavy@akleg.gov; Sen. Click Bishop;
Sen. Donny Olson; Sen. Lyman Hoffman
Subject: sb138

Dear Senators,

I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires, apprentices, and local contractors are on the project.

Sincerely,

woody hill

po box 57322

north pole AK 99705 whill@alaska.net

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 9:29 AM
To: Senate Finance Committee
Subject: FW: SB 138 PLA Language

Public testimony



Joe Byrnes

Staff for Senator Pete Kelly
907-456-3709



From: Bryan [<mailto:brymus@hotmail.com>]
Sent: Thursday, March 06, 2014 09:23
To: Sen. Kevin Meyer; Sen. Pete Kelly; Sen. Anna Fairclough; Senator.Mike.Dunleavy@akleg.gov; Sen. Click Bishop;
Sen. Donny Olson; Sen. Lyman Hoffman
Subject: SB 138 PLA Language

Dear Senators,

I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires, apprentices, and local contractors are on the project.

Sincerely,


Bryan Imus

1200 Vasi Way

North Pole, AK 99705

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 9:27 AM
To: Senate Finance Committee
Subject: FW:

Public testimony



Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709



From: nina cassity [<mailto:boomer2max@yahoo.com>]
Sent: Thursday, March 06, 2014 09:13
To: Sen. Lyman Hoffman; Sen. Kevin Meyer; Sen. Click Bishop; Sen. Pete Kelly; Sen. Anna Fairclough;
Senator.Mike.Dunleavy@akleg.gov; Sen. Donny Olson
Subject:

Senators,

I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires, apprentices, and local contractors are on the project.

Sincerely, Nina S. Cassity

P.O. BX 55234
North Pole, AK. 99705

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 9:26 AM
To: Senate Finance Committee
Subject: FW: Support PLA

Public testimony

Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709

-----Original Message-----

From: kimberly Baseden [mailto:kimberly_baseden@hotmail.com]
Sent: Thursday, March 06, 2014 09:16
To: Sen. Pete Kelly
Subject: Support PLA

Dear Senators,

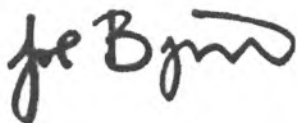
I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires, apprentices, and local contractors are on the project.

Sincerely,
Kimberly Baseden
Local 302 apprentice

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 1:25 PM
To: Senate Finance Committee
Subject: FW: PLA Support!

Public testimony



Joe Byrnes

Staff for Senator Pete Kelly
907-456-3709



From: Maryann Keane [<mailto:maryannkeane@hotmail.com>]

Sent: Thursday, March 06, 2014 12:02

To: Sen. Kevin Meyer; Sen. Pete Kelly; Sen. Anna Fairclough; Sen. Mike Dunleavy; Sen. Click Bishop; Sen. Donny Olson; Sen. Lyman Hoffman

Subject: PLA Support!

Dear Senators,

I support the use of a Project Labor Agreement in the building of a large diameter natural gas line. I've lived in Alaska my entire life and would like to see my friends and neighbors employed before outsiders. Employed safely, with proper training.

It is also important to make the effort to keep the income earned from this project in Alaska, using Alaskan resources, spent on Alaskan businesses.

-Maryann Keane

Fairbanks, Alaska

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 3:23 PM
To: Senate Finance Committee
Subject: FW:

Public testimony



Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709



From: al32ak@yahoo.com [<mailto:al32ak@yahoo.com>]
Sent: Thursday, March 06, 2014 14:13
To: Sen. Pete Kelly; Sen. Anna Fairclough; Senator.Mike.Dunleavey@akleg.gov; Sen. Click Bishop; Sen. Donny Olson;
Sen. Lyman Hoffman
Subject:

Dear Senator, I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires, apprentices, and local contractors are on the project. Sincerely, Alan Osberg 1707 southern ave. Fairbanks, Alaska 99709
Sent from Yahoo Mail on Android

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 3:20 PM
To: Senate Finance Committee
Subject: FW: PLA

Public testimony

Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709

-----Original Message-----

From: Tawnie [<mailto:tawniesaunders@gmail.com>]
Sent: Thursday, March 06, 2014 14:58
To: Sen. Pete Kelly
Subject: PLA

Dear Senators,

I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires, apprentices, and local contractors are on the project. As a life long Alaskan, I understand the importance of securing better work standards for our people. Thank you.

Sincerely,
Tawnie Saunders
402 N Grange Hall Rd
Fairbanks, AK 99712

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 3:40 PM
To: Senate Finance Committee
Subject: FW: Pipeline

Public testimony

Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709

-----Original Message-----

From: jim burke [<mailto:jimburke@hotmail.com>]
Sent: Thursday, March 06, 2014 13:18
To: Sen. Pete Kelly
Subject: Pipeline

Sent from my iPadDear Senators,

I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires, apprentices, and local contractors are on the project.

Sincerely,
James A Burke

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 3:41 PM
To: Senate Finance Committee
Subject: FW: Project Labor Agreement for gas line

Public testimony

Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709

-----Original Message-----

From: John [<mailto:johnthewolfdog@yahoo.com>]
Sent: Thursday, March 06, 2014 12:43
To: Sen. Kevin Meyer; Sen. Pete Kelly; Sen. Anna Fairclough; Sen. Click Bishop; Sen. Lyman Hoffman; Sen. Donny Olson
Subject: Project Labor Agreement for gas line

Dear Senators,

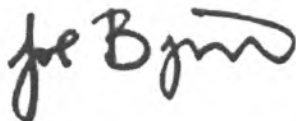
I support the use of a Project Labor Agreement (PLA) in building large diameter natural gas line, and the "intent" language in SB 138. PLA's are the only legal way to insure that local hires, apprentices, and local contractors are on the project.

Sincerely,
John Hudson

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 4:44 PM
To: Senate Finance Committee
Subject: FW: Support of AK resident and contractor hire related to SB 138

Public testimony



Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709



From: Jeff.Doyle@ch2m.com [<mailto:Jeff.Doyle@ch2m.com>]
Sent: Thursday, March 06, 2014 16:30
To: Sen. Pete Kelly; Sen. Kevin Meyer; Sen. Anna Fairclough; Sen.Bishop.Click@akleg.gov; Sen. Mike Dunleavy; Sen. Lyman Hoffman; Sen. Donny Olson
Cc: Tom.Maloney@CH2M.com
Subject: Support of AK resident and contractor hire related to SB 138

Dear Senators,

Thanks for your leadership and efforts in Juneau this year and for your work on draft SB 138. As an Alaskan resident since 1970 with two AK born children in the Anchorage school system, a 20+ year career in the oil industry, leader of an AK-based construction company that has supported the oil industry continuously for over 20 years, I am writing to encourage you to include language in this bill that supports AK resident hire and the use of AK contractors. It is my strong desire to remain in this state in support of the AK oil and gas industry through the end of my career. My son, who is approaching college age, has expressed an interest in following my career path in support of the AK oil and gas industry.

Thanks for your consideration and again, for your leadership in Juneau.

Sincerely, Jeff

Jeff Doyle

Vice President

NORCON, Inc.

A CH2M HILL Company

949 E. 36th Ave. Suite 143

Anchorage, AK 99508

Office Phone: 907 275 6320

Cell Phone: 907 529 0462

Doniece Gott

From: Sen. Pete Kelly
Sent: Thursday, March 06, 2014 4:46 PM
To: Senate Finance Committee
Subject: FW: language to negotiate a Project Labor Agreement (PLA).

Public testimony



Joe Byrnes
Staff for Senator Pete Kelly
907-456-3709



From: jacob dobbs [<mailto:jake.dobbs@outlook.com>]
Sent: Thursday, March 06, 2014 16:43
To: Sen. Kevin Meyer; Sen. Pete Kelly; Sen. Anna Fairclough; Senator.Mike.Dunleavey@akleg.gov; Sen. Click Bishop;
Sen. Donny Olson; Sen. Lyman Hoffman
Subject: language to negotiate a Project Labor Agreement (PLA).

Dear Senators,

I support the use of a Project Labor Agreement (PLA) in building a large diameter natural gas line, and the "intent" language in SB138. PLA's are the only legal way to insure that local hires, and local contractors are on the project.

Sincerely,

Jacob Dobbs

424 Valley View Drive

Fairbanks, Alaska 99712

Doniece Gott

From: LIO Anchorage
Sent: Tuesday, March 04, 2014 9:48 AM
To: Senate Finance Committee
Subject: FW: SB138 testimony today...

From: imacinak@alaska.net [mailto:imacinak@alaska.net]
Sent: Tuesday, March 04, 2014 9:10 AM
To: LIO Anchorage
Subject: SB138 testimony today...

I do not support the suspension of the state, or municipalities rights and duties to fairly raise taxes on any gasline, as is the process with oil. Alaska will be better off not mixed up in a secretly arranged effort to destroy the people`r rights to levy taxes on our resources where and WHENEVER those legal taxing authorities deem it necessary within Alaska. We shouldn`t have to diminish our own fiscal rights just to access state-owned gas for our own people. SB138 is as bad or qorse as SB21,...which is now being uncovered as the massive giveaway it is to the tune of nearly two billion dollars a year from our side of the table to theirs,..for empty promises and misrepresentations that that were made in order to rush SB21 through the legislature last year. I also do not support taking TC as a partner in a **no-bid situation brought on by the state`s fear of litigation** over AGIA. I urge us to pay off TC, take **the geologic and other info we paid for with the 300 million**, and go out for bid like a normal contract. This is the Anchorage LIO debacle on steroids,.. for not bidding as per state contract law.
-john McDowell,..Anchorage.

Doniece Gott

From: M <merrick@gci.net>
Sent: Thursday, March 06, 2014 7:16 PM
To: Senate Finance Committee; Senate Finance Committee
Subject: SB-138 Testimony

Re. SB-138

Dear Senate Finance:

I am following up per the request of Senate Finance Co-Chair Kelly, and Senator Fairclough from my previous public testimony on Monday morning March 3, 2013.

First, thank you for your interest in the gas line (SB-138) and for the questions you posed to me on Monday.

SB-138 has a structural flaw that nearly ensures a gasline will not be built, nor built under terms favorable to Alaska. As you are now aware the transnational corporations that would effectively be in charge of this project under this legislation are competitors. These corporations have LNG projects that directly compete with Alaska. It is imperative that the legislature focus on this issue and craft legislation that ensures Alaska is NOT in a subordinate position to those who compete with us. If we fail to do this, we will not have a gas line that is clearly critical to our economic well being. The budget deficits for this and for all fiscal years in the foreseeable future ensure that Alaska will deplete the CBR and SBR without new, diversified revenue.

The following are questions that must be addressed:

The CEO of ExxonMobil, Rex Tillerson, was interviewed by PBS host Charlie Rose a year ago. (Air date 3/6/2013. "An hour with Rex Tillerson, Chairman and CEO of ExxonMobil.") Link: <http://www.charlierose.com/watch/60189811> (You can watch this online.)

I implore you to watch this program. Tillerson was asked when Exxon knew about the massive amount of shale gas in the Lower 48. Tillerson responded; "...about ten years ago..." That would be 11 years ago now, or about five years before AGIA was signed into law. What is relevant is that Exxon knew we would be wasting time and money studying a pretend gas line project to the Lower 48. In about 2007 I implored DNR commissioner Tom Irwin (whom I've known and liked for over 20 years) to not waste time studying a project to the Lower 48 based upon what the experts I was speaking with were telling me, specifically, that the "shale gale" in the Lower 48 would preclude such an expensive project. Irwin was utilizing consultants Black and Veatch whose advice was terrible. The bottom line is Exxon was happy to see Alaska waste years of time and significant monetary resources studying a project that would never be built. In this way the public and elected officials would be pacified thinking the effort was legitimate. What Exxon did was act in its own best interests as any corporation is obligated to do. Exxon has LNG projects that compete with Alaska. Why wouldn't Exxon be content to keep Alaska gas warehoused? Allowing Alaska gas on to the would market would depress profits for Exxon relative to its other LNG projects.

Please spend time reviewing whether it is in Alaska's best interests to have another producer owned pipeline. Review the extraordinary, continuing fraud employed with TAPS, namely fraudulent tariffs, designed to keep competition off the North Slope. What has this ownership model cost Alaskans in lost competition and

reduced revenues? It is in the billions.

Please review- in detail- how Exxon and the Parnell administration were NOT responsive to the extraordinary market demand the Alaska Gasline Port Authority demonstrated in the 2012 Solicitation of Interest. Exxon/TransCanada was required to hold under AGIA. When the markets came here, and were looking for 5 billion cubic feet of natural gas, per day, Exxon, TransCanada, and the Parnell administration failed to respond. What better evidence do we need that allowing those multinational corporations to decide when, and if a project gets built is resolutely not in Alaska's best interest?

Please review the question of the route selection. As we discussed on Monday, the proper route for a large diameter gasline to tidewater is the same route- for the same reasons- that was selected for the Trans Alaska Oil Pipeline. (Prudhoe Bay to Valdez). The push for a route to Cook Inlet is designed for the kind of project-killing delays that will ensure Alaska's gas will miss the market- resulting in no project. The TAPS route has been demonstrated to work with the oil pipeline, and the work of Yukon Pacific demonstrated that it was possible to obtain a completed Final Environmental Impact Statement (FEIS), a presidential finding and a valid export license. Why would we step over this work to waste time on a route (to Cook Inlet) that has substantial unanswered questions? To name a few, seismic concerns at the liquefaction facility, endangered Cook Inlet Beluga Whales, a shallow inlet that limits world class LNG tankers, ice choked waters, and no Coast Guard Vessel Management and Tracking System.

A gasline route that parallels TAPS ensures Fairbanks will have proximate access to gas- of big concern to GVEA, the military bases, and crude oil refiners. The effort by Flint Hills to close its refinery illustrates, to a degree, its lack of confidence in the approach the Parnell administration has selected for a gas line. We should also want a route that ensures proximate access to cheap natural gas for the mining industry (potential) that exists along the Richardson Highway.

Please review and ask why the Parnell administration continues to rely on the same consultants who were so spectacularly wrong on the proposed pipeline to the Lower 48. Are they credible?

Please meet with the markets, or those who are representing the markets. When the markets are making it clear they need gas by 2019 and the plan before you utterly ignores this interest, proponents of such a plan should be fired for gross incompetence. The markets do not need Alaska. But we need them. If we continue to abuse these customers they will go elsewhere for LNG. We have already lost markets to Canada. We will lose this critical project if we do not heed what the markets are telling us. You have heard about all the other projects we are competing with; in Canada, the Gulf Coast of the USA, Papua New Guinea, Australia, Qatar, and even Russia.

I have worked on this issue diligently for the better part of a decade as a board-member of the Alaska Gasline Port Authority. I've met with the markets, I've met with many experts who have shared important information about how to advance this project. I've also gone on record many times about how to advance this project. When others were pitching a pipeline to the Lower 48 we were saying that was not going to work. When others said LNG export would not work, we were providing factual information about how economic and profitable such a project would be for Alaska. Years before those who now argue for Alaska taking an equity interest in the project we were saying that was an important step that could bring Alaska new, diversified (equity return) revenue.

But most important, I am representing the wishes of Alaska voters who got it exactly right when they asked us to build, or cause to be built, a large diameter gasline to Valdez.

Finally, I thought Sen. Meyer was on the right track the other day when AGDC testified before Senate Finance. Sen. Meyer noted the significant budget deficits we face and wondered if the money slated for

AGDC could be better spent. Continue that discussion. Please. The proposed AGDC bullet line makes no economic sense. To repeat, that project makes not one bit of economic sense. If the objective is to get gas to Alaskans, why in the world would we spent a \$8 billion dollar capex to achieve that result when an investment of tens- to a few hundred million in the Cook Inlet achieves that result? It makes no sense to spend \$8 billion when a much smaller investment can do the job. You must spend time with the Cook Inlet developers who have spent our money to develop in that basin. There is a lot of gas in the Cook Inlet. We have an estimated 200 year supply there. Even the DNR commissioner has asked that the LNG export facility at Nikiski be re-opened to provide for a way to move Cook Inlet gas to the markets. It is a incredible waste of money to be spending money on two separate gas line projects.

The current policy of the administration is so flawed as to be incoherent. We dole out incredible sums of money to encourage gas development in the Cook Inlet basin. When those Cook Inlet drillers seek to provide gas to Alaska markets they are rebuffed by AIDEA. We then spend hundreds of millions trying to convey gas (AGDC) to the Cook Inlet with a non economic gasline after drillers in the Cook Inlet make it very clear the gas they've developed can always beat the bullet line price. We then throw \$300 million at AGIA and when the markets respond they are ignored, and even insulted. What message does this send to the markets? That Alaska is a banana Republic? Frankly this lack of strategic vision and basic common sense is stunning.

We need the legislature to step up and ratify an approach that is economic, consistent with the wishes of Alaska voters, and dovetails with the interest of the markets.

Sincerely,

Merrick Peirce

Boardmember, CFO AGPA.

**Testimony of Charlotte Brower
Mayor, North Slope Borough, Alaska
March 6, 2014**

**Before the
Senate Finance Committee
Alaska State Legislature
Legislative Hearing on SB138**

Good morning Co-chairman Kelly, Co-chairman Meyer, and Senators.

My name is Charlotte Brower. I am honored to be the Mayor of the North Slope Borough, the wife of a whaling captain, and am blessed with six children and twenty-five grandchildren.

Thank you for the opportunity to speak on SB138, a bill that authorizes the State of Alaska to move forward on developing a natural gas pipeline from the North Slope to tidewater.

Today I would like to talk about some of the concerns and interests of the North Slope Borough regarding SB 138 and the Heads of Agreement, which is a separate document that outlines the guiding principles of the Alaska LNG Project. I'm also here to offer some suggestions on how those concerns could be addressed by this committee, the Legislature, the Governor, and his Administration.

Before we talk about concerns, its important that say 'Thank You' to our Good Lord for the opportunity to be having this discussion on how to build a 40 to 50 billion-dollar project to develop our natural gas. How many other legislators or mayors would love to trade places with us right now?

The Alaska LNG Project envisions a 20 to 25 percent ownership by the State of Alaska. This requires the Legislature to evaluate complicated policy decisions and risks and costs on a level equal with decisions made by Fortune 500 companies. Please let me take a moment to acknowledge our appreciation for your efforts on behalf of our residents. You are truly deciding the future of our state, and on behalf of the North Slope Borough, I commend you. Quyanaqpak.

As Alaskans, we've learned from the past that large projects like this can set a positive course for our future. But we also know that in order to provide the maximum possible benefits, we have to be prepared for the impacts. For example, the Trans Alaska Oil Pipeline has provided billions of dollars of revenue and jobs, but we also learned lessons about demands for public services to deal with social services, job training, infrastructure, public safety, and education.

That brings me to the points that should be addressed in Senate Bill 138 and the Heads of Agreement document before this committee.

The Heads of Agreement has language in Article 9.3 that states the “Parties” intend for the project’s fiscal terms to be included in project-enabling contracts. Subject to “consultation” with local governments, the Administration will establish payments in lieu of property tax (PILT), which are to be based on a unit rate per throughput basis. In other words, the payment is calculated as cents per thousand cubic feet of natural gas.

The reason for concern is that the process for “consultation” is not defined. We see that the process for enabling contracts is an “up or down” ratification vote by the Legislature after the Administration submits them to you for approval. If the local taxing authority of municipal governments is going to be modified to provide fiscal certainty, we must be part of the process.

Let me turn now to the language in Senate Bill 138.

The current language in SB138 addresses the taxing authority of local municipal governments in three different sections.

First, the Senate Resources Committee added Legislative Intent language in Section 1 that the interests of local governmental entities “must be considered in contract negotiations to protect the financial and other interests” of the local governmental entities. The addition of this language is recognized and appreciated, but it does not have the force of law, and does not go far enough.

Second, in Section 8 of the bill, the state-created subsidiary is given the legal provisions created in current law for the Alaska Gasline Development Corporation, known as “AGDC”. This includes the language in Alaska Statute 31.25.260, which exempts AGDC from municipal taxes for any property owned by AGDC. In addition, this section of law further exempts taxable property for any joint venture or partnership with AGDC during construction of the pipeline.

This creates confusion because the new subsidiary for the large-diameter project is given the all the benefits provided to AGDC, but they are two completely separate and distinct projects. In the case of the Alaska LNG Project in SB138, there is a very large project that proposes to have significant state ownership. This was not the model that was envisioned when the Legislature discussed the formation of AGDC last year during the hearings on House Bill 4.

Third, the Commissioners of the Departments of Natural Resources and Revenue are provided authority to negotiate enabling contracts that must be ratified by the Legislature. Based on the language in the HOA, these enabling contracts will be used to establish a PILT system and also establish a series of impact payments during project construction.

I am here today to request your consideration for making amendments to SB138 and other changes that will protect the interests of local governments. Before discussing those amendments, I would like to provide some background.

Less than three weeks ago I was fortunate enough to offer testimony to the House Resources Committee in Juneau to support of HJR26. HJR26 is a resolution calling upon the United States Congress to pass legislation that establish a revenue sharing program from the proceeds of oil and gas development on the outer continental shelf off our shores. Earlier this week, HJR26 passed the Senate on a vote of 17 – 0. Thank you for your vote. By working together as Alaskans, we are sending a message for receiving a fair and equitable distribution of revenues that come from energy development off our shores.

It was our combined message as state and local governments that we will need resources to keep up with infrastructure requirements, expand emergency response and search and rescue capabilities, and work to maintain healthy communities and a healthy ecosystem.

When it comes to dealing with the impacts of oil and gas development, the basic discussion between offshore and onshore is not really that much different. As the local government responsible for providing basic essential services, the North Slope Borough is there to help provide for cost of schools, emergency response, health and social services, and public safety.

Like most other municipal governments, the North Slope Borough relies upon our authority to levy a property tax in order to generate the revenue to provide these public services. That is why any discussion to exempt property taxes from a project of this magnitude gives me cause for concern.

This is not the first time we've discussed the development of a natural gas pipeline and the issue of fiscal stability for the project. And I continue to believe that municipal taxes are not the issue that makes or breaks the margin on a project that could exceed \$50 billion.

On behalf of the North Slope Borough, I would like to request your consideration for the following amendments to Senate Bill 138:

- 1) The newly created subsidiary should not be provided the tax exemptions provided to AGDC for the small in-state project. In particular, the tax exemptions under AS 31.25.260 should not apply to the large-diameter project in SB138.
- 2) Let's explore ways for municipalities to participate in the project. For the all the reasons that the project benefits from participation by the State of Alaska, perhaps many of the concerns of municipalities could be addressed in the same manner. For example, perhaps municipal governments could access revenues and get access to natural gas by having an ownership stake in a portion of the project.
- 3) The Governor has authority to issue Administrative Orders that could establish an advisory working group of municipal officials, Administration officials, industry participants, and others. Perhaps this approach could be explored to get conversations started to resolve some of these concerns.

No one wants to see a natural gas pipeline more than myself. I see the opportunity for my grandchildren to have good jobs, and I also want to see access to affordable energy for my grandchildren's children.

In order to get jobs and access to affordable energy, our villages will need good schools, housing, and other basic services in order to take advantage of the opportunities. And for that reason, I am here today to speak up for the ability of our municipal government to have the authority to meet those needs.

Quyanaqpak

ALASKA STATE LEGISLATURE
SENATE FINANCE COMMITTEE

Senator Kevin Meyer, Co-Chair
State Capitol, Room 518
Juneau, Alaska 99801-1182
Phone: (907) 465-4945
Fax: (907) 465-3476
Sen.Kevin.Meyer@akleg.gov



Senator Pete Kelly, Co-Chair
State Capitol, Room 516
Juneau, Alaska 99801-1182
Phone: (907) 465-3709
Fax: (907) 465-4714
Sen.Pete.Kelly@akleg.gov

The Honorable
Luke Hopkins, Mayor
Fairbanks North Star Borough
PO Box 71267
Fairbanks, Alaska 99707

The Honorable
Mike Navarre, Mayor
Kenai Peninsula Borough
144 North Binkley Street
Soldotna, Alaska 99669

The Honorable
Charlotte Brower, Mayor
North Slope Borough
PO Box 69
Barrow, Alaska 99723

March 3, 2014

Dear Mayor Hopkins, Mayor Navarre, and Mayor Brower:

We are looking forward to you participating in the discussion on SB 138 and hope you can add to our understanding of the proposal following your discussion with Governor Parnell. Would you be able to participate on Thursday, March 6 at 9:00 am?

In preface to this discussion:

1. The Alaska Constitution allows the Legislature to delegate taxing powers to organized boroughs.
2. The Governor's Heads of Agreement (HOA) proposes to discuss with you and back before the Legislature an alternative tax model (Payment in Lieu of Taxes) which may provide a more stable long term alternative to the depreciating property tax. As envisioned, the proposal would provide a stable flat rate of income, instead of a high initial income that declines over time.
3. The Department of Revenue projects the property tax portion to be substantial, in round numbers, property taxes could be $\frac{1}{4}$ to $\frac{1}{3}$ of the "total government take."
4. The State's equity investment of several billion dollars could generate \$1 billion for the municipalities and 2 - 3 billion for the rest of the State for 20 to 30 years or more.
5. Section 9.3.1 of the HOA envisions not only that Municipalities would receive the above PILT, but also "impact funds."

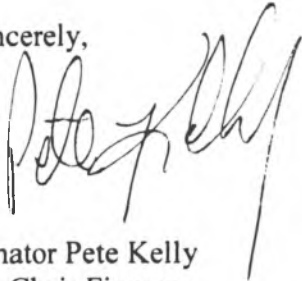
Questions we would like you to be able to discuss include:

1. Do you envision your communities sharing in the equity and risk as the State considers investing in our economic future?
2. Would you forego the potential "impact funds" as part of your financial participation?
3. Are there other means the organized boroughs and cities could offer for their participation?

4. Should we direct the Commissioner of Revenue to analyze and develop a mechanism to better enable you to manage the funds?
 - a. Mayor Hopkins raises the issue of communities without the pipeline receiving payments: Should a share be set aside for all communities? Perhaps 20%?
 - b. Should we ask the Commissioner to analyze catastrophic emergencies and determine what percentage should be set aside in a reserve fund? Perhaps 50%?
 - c. Of the few communities receiving direct payments, what percent should be set aside for major maintenance and unfunded liabilities, including retirement obligations now passed on to the remainder of the State?
5. Can you explain your concerns about the tax exempt provisions we passed last year in HB 4 that exempted AGDC from state and municipal taxes?
6. What else should we consider adding to this bill to ensure full consideration of the fairness between your communities and all other state citizens?

Thank you for your efforts on behalf of the Alaskans who live and work in your communities.

Sincerely,



Senator Pete Kelly
Co-Chair Finance



Senator Kevin Meyer
Co-Chair Finance

CC: Mayor Clay Walker, Denali Borough
Mayor Larry DeVilbiss, Matanuska-Susitna Borough
Mayor Dan Sullivan, Municipality of Anchorage



Fairbanks North Star Borough Mayor's Office

809 Pioneer Road PO Box 71267 Fairbanks, Alaska 99707-1267 (907)459-1300 FAX (907)459-1102

February 28, 2014

Honorable Senator Pete Kelly
State Capitol Room 516
Juneau, Alaska 99801

Honorable Senator Kevin Meyer
State Capitol Room 518
Juneau, Alaska 99801

Senator Kelly and Senator Meyer,

On behalf of the three mayors, Mayor Mike Navarre of Kenai Penn. Borough, Mayor Charlotte Brower of North Slope Borough and, myself, Mayor Hopkins, Fairbanks North Star Borough, we request the opportunity to testify in person at the Finance Committee hearings on Senate Bill 138, March 3-5, 2014 to allow to join me before your committee. We have also requested a meeting with Governor Parnell, Commissioners Balash and Rodell on these issues.

Legislation that could affect municipal taxation under AS 45.63 and AS 29.23 is of concern to our boroughs. This borough expects, consistent with current practice and law that property associated with construction of a major gas line will be located within our boundaries even though we fall outside the actual pipeline route. For example, Anchorage currently receives property tax revenue from TAPS even though the pipeline itself is not located in its boundaries. This borough also is concerned that existing tax revenue contributing to our current stable tax base is not negatively impacted or eroded in future negotiations.

Sincerely,

A handwritten signature in black ink, appearing to read "Luke Hopkins".

Luke Hopkins, Mayor
Fairbanks North Star Borough
907.459.1300 office; 907.347.0066 cell



February 27, 2014

Commissioner Angela Rodell
Alaska Department of Revenue
PO Box 110400
Juneau, Alaska 99811

Commissioner Joe Balash
Alaska Department of Natural Resources
550 W. 7th Avenue, Ste. 1260
Anchorage, Alaska 99501

Dear Commissioners Rodell and Balash,

As local government leaders, we are encouraged by the prospect of construction of a natural gas pipeline. We support continued efforts toward completion of a successful project and the economic benefits it will bring to the State of Alaska, our communities and our residents.

We have had the opportunity to review the enclosed letter DOR Deputy Commissioner Michael Pawlowski sent to Kathie Wasserman, Executive Director of the Alaska Municipal League, on February 17, 2014. Although we would have preferred to be involved in the Heads of Agreement negotiations and any decision regarding local property taxes at that stage, we are pleased to know that the State will collaborate with local governments in the development of any payment in lieu of taxes (PILT) and schedule of impact payments.

This letter is intended to seek additional and definitive clarification regarding the State's intention as it relates to local property taxes. Mr. Pawlowski stated in the February 17, 2014 letter that the Heads of Agreement (and subsequently, any related legislation) will only impact development related to the Alaska LNG project. We would greatly appreciate a confirmation that existing oil and gas property will not be affected by any agreements associated with the Alaska LNG project, but instead will remain taxable under the current AS 43.56 and AS 29.45 *ad valorem* tax regime.

Given that the Heads of Agreement only includes new infrastructure downstream of the Prudhoe Bay and Point Thompson units, as Mr. Pawlowski pointed out in his letter, we request that the administration put forth an amendment to SB 138 and HB 277 clearly stating that existing oil and gas property will not be subject to the future negotiations contemplated by this legislation.

Second, we request additional information regarding the role of municipalities in such future negotiations, which Mr. Pawlowski describes in his letter as a "consensus approach." In particular, we request confirmation that local government leaders will be directly involved in the negotiation process and will be party to the confidential agreements.

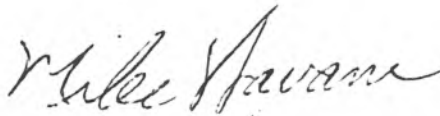
While we understand that negotiations will not begin until SB 138/HB 277 are approved by the legislature, it is imperative that this legislation provides for the protection of existing local property tax structures and clearly outlines the role that municipalities will have in shaping future negotiations. We have been working on legislation to address these concerns, and we would be happy to propose amendments or to meet with the administration to draft language that addresses our mutual interests.

We look forward to receiving your response and hope to develop a clear plan for the meaningful participation of local government representatives as the administration moves ahead with the Alaska LNG project.

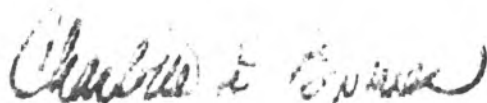
Sincerely,



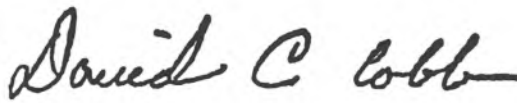
Mayor Luke Hopkins
Fairbanks North Star Borough



Mayor Mike Navarre
Kenai Peninsula Borough



Mayor Charlotte Brower
North Slope Borough



Mayor Dave Cobb
City of Valdez

Cc: Governor Sean Parnell
House Speaker Mike Chenault
Senate President Charlie Huggins
DOR Deputy Commissioner Michael Pawlowski
AML Executive Director Kathie Wasserman

Enclosure



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of Revenue
Angela M. Rodell, Commissioner

February 17, 2014

Kathie Wasserman
Executive Director
Alaska Municipal League
217 Second Street Suite 200
Juneau, AK 99801

Dear Ms. Wasserman:

Thank you for the opportunity to meet with you and Mr. Gillespie on Thursday February 6, 2014 regarding property taxes and the Alaska LNG project. As I explained at the meeting, property taxes on the Alaska LNG project are a material portion of the overall government take and will be a key element of the overall fiscal structure. However, in developing the Heads of Agreement the Administration recognized that it was premature to discuss property taxes for the project given it is in the early stages of development.

With the passage of SB 138 the project will enter a new stage where hundreds of millions will be spent by the projects' sponsors to advance the Parties' understanding of the project and assess the potential market for LNG from Alaska. It is during this phase, the Pre-Front End Engineering and Design (Pre-FEED) stage that discussions around the appropriate property tax regime for the project will need to occur.

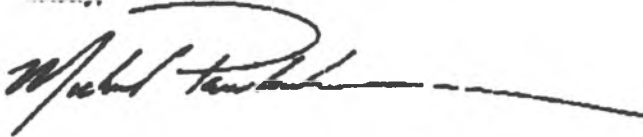
That is why in the Heads of Agreement (page 15, provision 9.3.1) the Administration agreed, in consultation with local governments, to develop a Payment in Lieu of Tax (PILT) and schedule of impact payments for the project. The base for any PILT or impact payment system is undefined and the Administration has always viewed the development of such a concept as only working if it is a consensus approach developed with local governments. Should SB 138 pass the Legislature and the Alaska LNG project takes a significant step forward, it is our intent to initiate discussions with local governments on this issue. I hope that the Alaska Municipal League can play an important role in assisting the State in working with local governments.

While we look forward to meaningful momentum on the Alaska LNG project and the opportunity to be working with you to advance a large-scale natural gas project, it is important to note that our collective work on property tax issues would be centered on the Alaska LNG project and not upstream assets or other taxable property. This is because the property tax referenced in the Heads of Agreement is limited to that property tax "for the Alaska LNG project;" the definition of the Alaska LNG project can be found in the Heads of Agreement on page 5, section 1.4 and includes only the new infrastructure downstream of the Prudhoe Bay and Pt. Thomson units.

In considering this opportunity it is important to remember that any revisions to property tax for the project would need to be returned to the legislature for consideration in a future legislative session.

Again, thank you so much for the opportunity to meet with you. We look forward, with the passage of SB 138, to finally seeing the momentum on a large-scale natural gas project necessary to start having discussions with you and local governments about maximizing this opportunity for Alaskans.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Pawlowski", with a long horizontal line extending to the right.

Michael Pawlowski
Deputy Commissioner
Department of Revenue

To: Senate Finance Committee Members
From: Lisa Weissler, Attorney
Date: March 4, 2014
Re: CSSB 138(RES), Public Comment

Substantive changes to CSSB 138 (RES) are needed in order to protect the state's sovereign role and public interests in an LNG gas pipeline project.

State ownership in a gas pipeline is a major public policy decision with many risks and benefits that warrants a thorough and public discussion, including whether there are other viable financial or regulatory options that provide similar benefits with fewer risks to the state.

If equity participation is found to be in the state's best interest, legislation is needed to establish how the state participates in the project, how public interests will be protected and what can and cannot be included in any contracts or agreements. It is important to establish in law any conditions for the state's equity participation because once the state enters into commercial agreements, its role as a sovereign is limited.

Similar to the Stranded Gas Development Act, an Alaska LNG Project Act would include statutory provisions relating to:

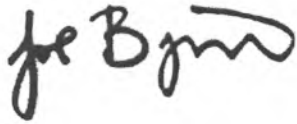
- Principles and conditions for state equity participation
- Establishment of a state-owned public corporation or authority to manage the project
- Principles and conditions for state participation as a shipper
 - Gas treatment, transport and marketing of state gas
- Timing and procedures for legislative consultation and authorizations
- Disclosure of information; confidentiality procedures
- Timing of state commitments
- Instate gas deliveries and affordable energy
- Municipal participation and impacts
- Payment in lieu of taxes
- Gas royalty and tax
- Pipeline access and expansion
- Specific protections for the state oil tax and royalty structure
- DNR commissioner findings and a determination that a proposed contract is in the state's best interests; subject to public review and comment
- Alaska hire
- Other provisions as necessary to protect the state's interests

Clear statutory language governing state participation and future negotiations will strengthen the state's hand as the administration works to develop contracts and other agreements for legislative review and approval, and will help protect the state's interests as the project proceeds.

Doniece Gott

From: Sen. Pete Kelly
Sent: Monday, March 03, 2014 4:57 PM
To: Senate Finance Committee
Subject: FW: Make Your Voice Heard on Alaska's Gasline

Public testimony



Joe Byrnes

Staff for Senator Pete Kelly

907-456-3709



From: Samantha Kirstein [<mailto:skirstein@fairbanksfoodbank.org>]

Sent: Monday, March 03, 2014 16:11

To: Sen. John Coghill; Sen. Pete Kelly; Sen. Click Bishop; Rep. Steve Thompson; Rep. Tammie Wilson; Rep. Doug Isaacson; Rep. Pete Higgins; 'Representative.Scott.Kowasaki@akleg.gov'; Rep. David Guttenberg

Subject: FW: Make Your Voice Heard on Alaska's Gasline

The Governor asked us to make our voices heard (again) on Alaska's Gasline (see below). I think I am out of words. PLEASE follow through this time to make this happen. Our people (1) need good work to support their families so that they do not have to be served by a food bank; and (2) need less expensive energy to heat our homes and generate electricity. THIS IS REALLY IMPORTANT. Thank you for getting us this far. PLEASE don't stop now.

"No one of us is as smart as all of us working together"



Samantha Castle Kirstein

Executive Director

Fairbanks Community Food Bank

725 26th Avenue

Fairbanks, Alaska 99701

**Testimony of Richard A. Fineberg on SB 138
before the Senate Finance Committee
March 4, 2014**

Five score and several years ago, philosopher and writer George Santayana spoke these famous words:

Those who cannot remember the past are condemned to repeat it

Now we are engaged in another great gas line dream that is also dedicated to the Santayana proposition that

Miracles are propitious accidents, the natural causes of which are too complicated to be readily understood.

Four decades of history have taught us that the three major producers who control roughly 90 percent of North Slope oil production and an even larger share of TAPS have overcharged on the pipeline, augmenting hefty profits by reducing state taxes while penalizing potential competitors. In the last two weeks separate news reports – from the state Supreme Court and the Federal Energy Regulatory Commission – indicate that these majors, who racked up billions of dollars in extra profits from TAPS overcharges, continue to seek new ways to manipulate TAPS tariffs to the detriment of state interests. Meanwhile, every major natural gas project has failed.

Testifying on the recent shift in gas line hopes from “My way is the highway” to the fantasy of Asian LNG, knowledgeable consultants have identified the following significant problems:

- natural gas is less valuable than crude oil;
- natural gas pricing is more volatile and significantly more opaque than oil pricing;
- a much larger percentage of the market value of natural gas is tied up in that pipeline delivery system;
- the cost of the North Slope LNG project ranges from \$45 to \$65 billion; and
- project delays would be extremely detrimental to potential profits.

Despite these indications that investment in a North Slope natural gas line would be a high-risk venture, I note with interest that in SB 138 deliberations last week the Senate Finance Committee placed less than a dozen documents on the record, including an executive summary of a report that was 12 years old. By comparison, during the same period the committee tendered 31 documents on a bill establishing an Alaska Sentencing Commission and 17 documents on a resolution urging Congress to provide equitable oil and gas sharing for areas adjacent to the Outer Continental Shelf.

In his declaration on the causal relationship between ignorance of history and the repetition of mistakes, Santayana also said this:

when experience is not retained . . . infancy is perpetual.

If the shoe fits, do not wear it. Instead of pursuing childish natural gas fantasies, alter your course to focus on oil and carefully consider the lessons of history.



March 11, 2014

White Paper: TransCanada Participation in the AKLNG Project

The State has proposed, through Senate Bill 138 and House Bill 277, to take an equity interest in the AKLNG project equal in percentage to the "State Gas Share," which would be the percentage of gas production tax (taken as gas instead of as money) and royalty gas. Accordingly, the State has analyzed issues related to ownership of approximately 20% to 25% of the project.

Alaskans will see significant benefits from large-scale gas commercialization that yields new supplies of in-state gas, revenue streams and jobs. However, LNG projects of this magnitude are expensive and carry financial risks. To mitigate these risks, it is prudent for the State to bring on a partner or partners.

With passage of this legislation, TransCanada Corp. may hold the State's ownership interest in the project's Gas Treatment Plant and Pipeline. The provisions pertaining to TransCanada are based on a Memorandum of Understanding (MOU) between the commissioners of Natural Resources and Revenue, and TransCanada.

More detailed agreements between the parties will be required to advance the project and these also will be subject to legislative review and approval. These agreements will transition the State and TransCanada out of the Alaska Gasline Inducement Act (AGIA) and establish a relationship with TransCanada that is more similar to traditional pipeline/customer relationships that exist around the world.

State/TransCanada Participation Options

The State considered three options for equity participation in the GTP/Pipeline components of the project:

- State Alone:
 - The State would hold its 20%-25% interest in all components of the AKLNG Project
- State with TransCanada:
 - TC would hold the State's 20%-25% interest in the GTP/Pipeline and the State would hold its 20%-25% interest in the LNG Plant.
- State with TransCanada with buy back option:
 - TC would hold the State's 20%-25% interest in the GTP/Pipeline and the State would hold its 20%-25% interest in the LNG Plant
 - At the beginning of the Front End Engineering & Design (FEED) stage, the State would exercise an option to buy back an interest of between 30% and 40%¹ of the share held by TC in the GTP/ Pipeline, with TC's share to be maintained at a minimum of 14 percent of the total GTP and Pipeline components of the project.
 - If the State exercises this option, it will receive between 30% and 40% of the equity return TransCanada receives, but will also be responsible for between 30% and 40% of TransCanada's project costs during FEED, construction and operation.

¹ 30% of a 20% State Share of the GTP and Pipeline elements of the project would equate to 6% of the GTP and Pipeline components. 40% of a 25% State Share of the GTP and Pipeline elements of the project would equate to 10% of the GTP and Pipeline components.

	GTP	Pipeline	LNG Plant
SOA Alone	SOA : 20%	SOA: 20%	SOA: 20%
SOA + TC No Buyback	TC: 20%	TC: 20%	SOA: 20%
SOA + TC with Buyback	TC: 14%	TC: 14%	SOA: 20%
	SOA: 6%	SOA: 6%	

Exhibit 1: How the State would share its responsibility for its share of the project, under various options, assuming that the State holds 20 percent interest in project; all graphics based on analysis by Black & Veatch, unless otherwise noted.

Under the terms of the MOU, in conjunction with TransCanada’s upfront investment in the AKLNG Project, the State may enter into a 25-year agreement with TransCanada wherein the company would provide the State with gas treating and transportation services for the State’s share of the gas in exchange for a tariff payment from the State. Through this arrangement (See Exhibit 2), the State would reduce its upfront capital risk in this large project and defer a portion of its payments to when the project is operational and revenues are realized.

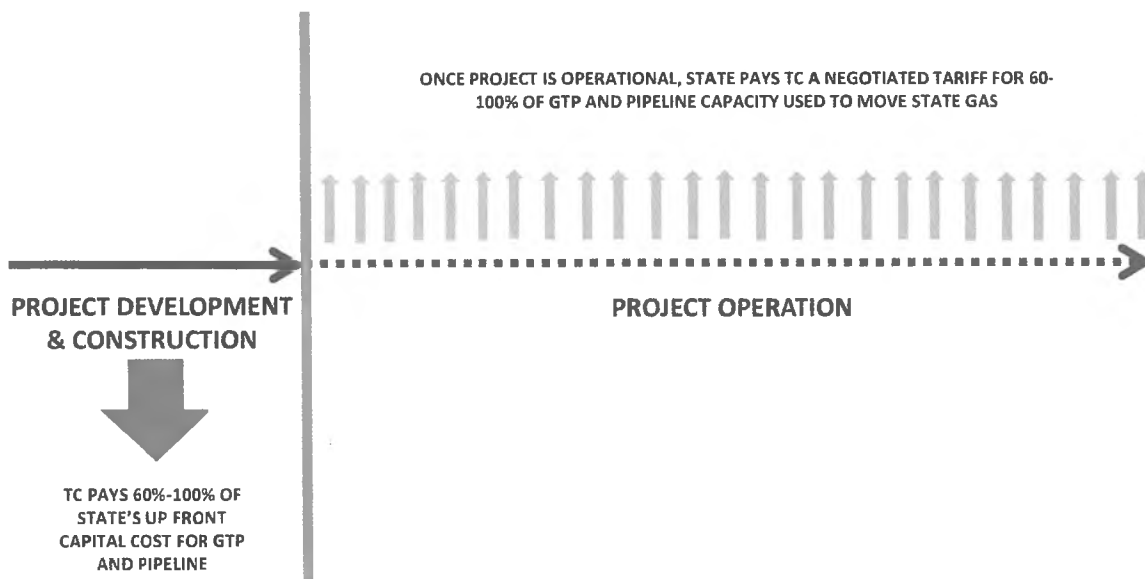


Exhibit 2: TransCanada bears upfront capital cost and receives a tariff from the State for 25 years.

Reducing Project Costs and Associated Risks

While investment in the AKLNG project is expected to bring significant benefits to the State, as with any investment, it is important for the State to prudently address risks such as cost overruns. Through its equity participation in the AKLNG project, TransCanada will help manage those risks by shouldering some of the cost obligations during construction, when cash calls will not be supported by project revenues. This will also help the State maintain sufficient cash reserves to address important public functions, such as public safety, health and education.

TransCanada’s participation in the project reduces the State’s investment in the project by billions of dollars, depending on the total equity stake ultimately taken by the State. Assuming that the State holds 20 percent interest in project, the range of the State’s responsibility to finance project costs, based on the different options in the agreement with TransCanada, as well as the State’s “go it alone” option, are shown below in Exhibit 3.

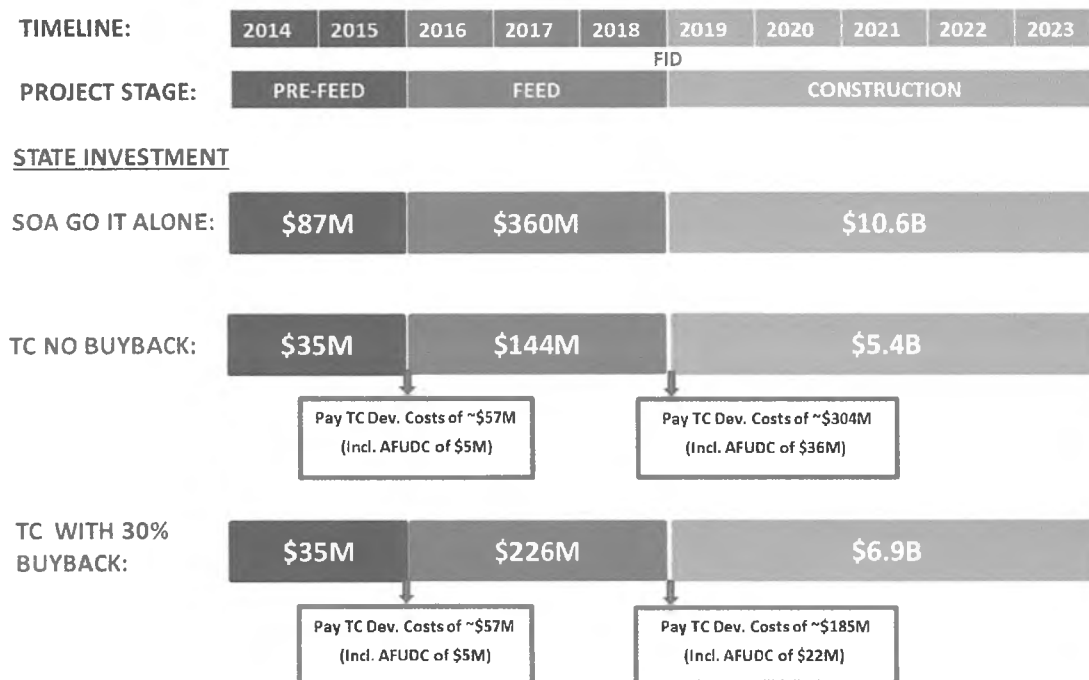


Exhibit 3: Cost implications of equity options and the “off ramps” available for the State to either move forward or withdraw from the project.

Value of Project Momentum

While the State could initiate a process to pursue other partners to assure itself of having procured the “best deal,” the time necessary to complete such a process would likely have an adverse impact on the momentum of the AKLNG project.² From a fiscal perspective, the benefit of obtaining better terms is minimal compared with the associated cost of delaying the project to engage in that effort. As seen in Exhibit 4, the value of

² By way of comparison, it took approximately two years for the competitively-bid AGIA license process to be completed. Given that TransCanada was the only company to submit a complete a compliant application during the AGIA process, it is not assured that the State would readily identify other companies willing to offer better terms.

retaining momentum in the project is significant since each year's delay in the project is estimated to cost the State \$800 million in net present value. In contrast, the estimated value of procuring better commercial terms – either by reducing the return on equity required by 1%, or by reducing the equity portion of the capital structure by 5% – are only \$100 million and \$200 million respectively in additional net present value to the State.

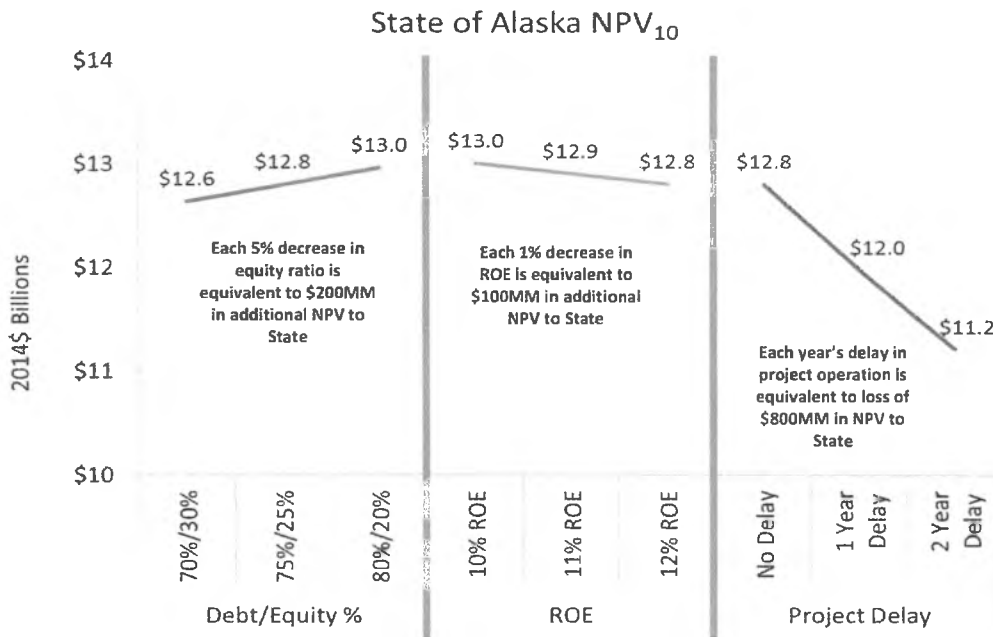


Exhibit 4: The cost to the State from project delays could outweigh the benefit of securing better commercial terms (debt/equity or ROE).³

Experienced Third Party

TransCanada is a pre-eminent pipeline builder in North America and brings to this project a wealth of northern pipeline experience – particularly with a detailed working knowledge of Alaska conditions.

Along with those advantages, TransCanada’s participation in the AKLNG project brings into the project a partner whose sole interest lies in energy transportation. As a transportation company, TransCanada is aligned with the State’s interests in project expansions that accelerate further oil and gas exploration and development in the State, and by companies other than the major producers.

³ Assumes the State holds a 25% interest in the project.

TransCanada Capital Project Performance



Project	Capital Cost* (S Billions)	In-Service Date	Cost Performance	Schedule Performance
Bécancour	0.5	Q3 2006	6% under	15 days late
Tamazunchale	0.2	Q4 2006	8% under	30 days early
Cartier Wind (Phases I-III)	0.6	Q4 2006/07/08	3% under	14 days early
Michigan Storage Expansion	0.1	Q4 2007/08	10% under	On time
Portland Energy Centre	0.7	Q1 2009	2% under	21 days early
Kibby Wind (Phases I & II)	0.4	Q4 2009/10	On budget	On time
Alberta Pipe	0.2	2009/10	29% under	On time
North Central Corridor	0.8	Q2 2010	15% under	On time
Halton Hills	0.7	Q3 2010	On budget	On time
Groundbirch	0.2	Q4 2010	44% under	30 days late
Keystone (Phases I & II)	6.0	Q3 2010/Q1 2011	12% over	On time
Bison	0.6	Q1 2011	11% over	60 days late
Coolidge	0.5	Q2 2011	12% under	On time
Guadalajara	0.4	Q2 2011	On budget	On time

* TransCanada share in Canadian dollars. Excludes interest during construction. Estimated Keystone (Phases I & II) costs.

February 27, 2014

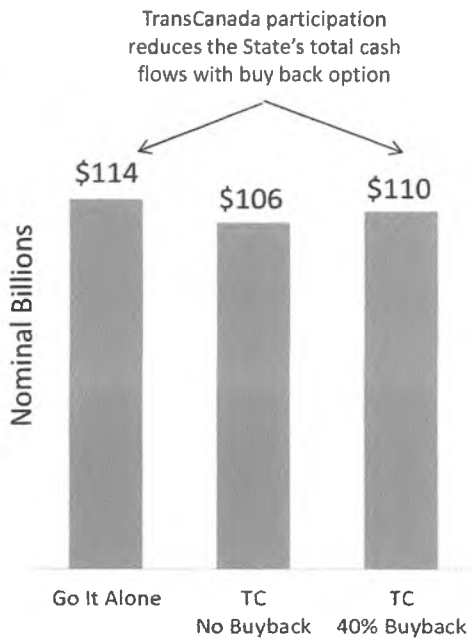
Exhibit 5: TransCanada has an exceptional record of delivering pipeline projects on time and on budget; chart furnished by TransCanada to Alaska Senate Finance Committee.

Economic Impact of TransCanada's Participation

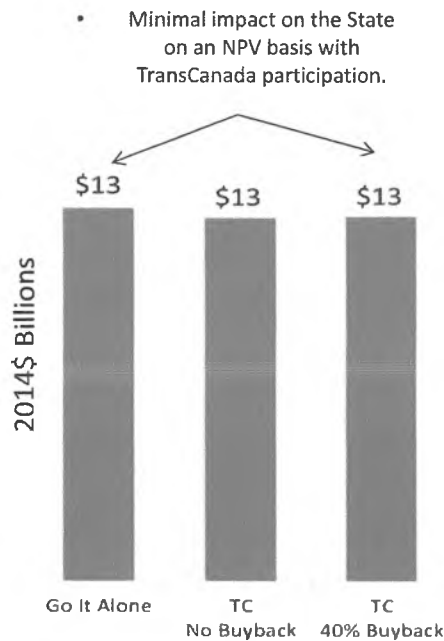
Offsetting or sharing risks with a partner is generally accompanied by a cost to allow that partner earn a return on its investment and to compensate it for incurring the associated risks. This is the reason for the State to enter into a 25-year agreement with TransCanada wherein the company would provide the State with gas treating and transportation services in exchange for a tariff payment.

The MOU with TransCanada specifies that the tariff paid by the State to TransCanada will be calculated using a favorable capital structure consisting of 75% debt (which is generally cheaper) and 25% equity (which is generally more expensive), a competitive return on equity of 12% and a cost of debt of 5%. These terms are more favorable to the State than recent capital structures and ROEs approved by the Federal Energy Regulatory Commission for new projects, and they are competitive with the terms negotiated for TC's AGIA project, as well as the Denali project's terms.

An examination of the economic impact of the project – between now and the first 25 years of the project's operation – indicates that TransCanada's participation is expected to result in a relatively small reduction of the State's total cash flows, while having only a minimal impact on a net present value basis.



STATE OF ALASKA CASH FLOWS



STATE OF ALASKA NPV₁₀

Exhibit 6: TransCanada's participation is expected to reduce the State's total cash flows but not materially impact net present value. Assumes the State holds a 25% interest in the project.

Generally speaking, the State can invest less and earn more by taking a 25% interest in the AKLNG Project with TransCanada than taking a 20% interest and "going it alone." A comparison of these options, in terms of State costs and future revenue – are provided in Exhibit 7 and Exhibit 8 below.

State of Alaska Investment Requirement (Unlevered)

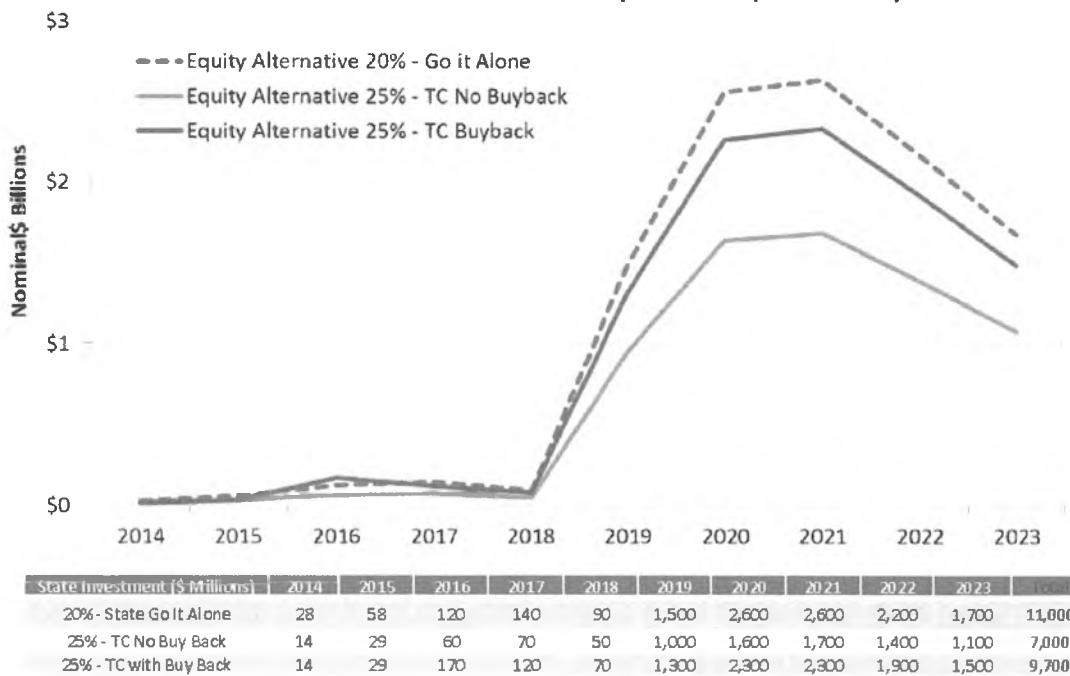


Exhibit 7: The State's costs for a 20% ownership "going it alone" are expected to be \$1.3-4 billion higher than for a 25% ownership with TransCanada.

State of Alaska Gasline Impact Cash Calls & Revenues Forecast

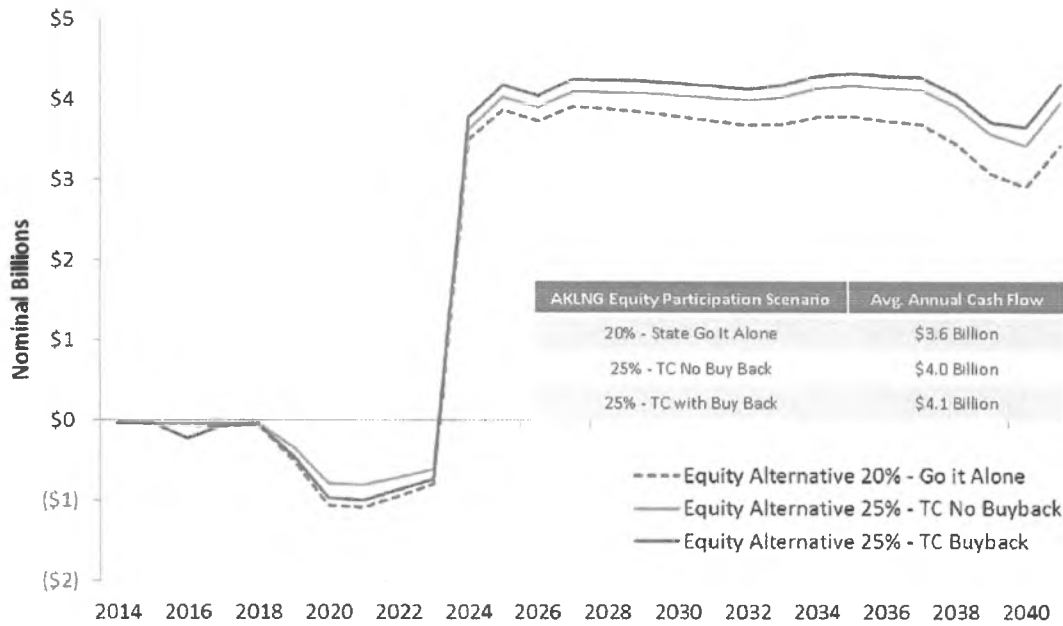


Exhibit 8: State revenues for a 20% ownership “going it alone” are expected to be \$400-500 million lower annually than for a 25% ownership with TransCanada.

Summary

The AKLNG Project is a significant undertaking that is expected to reap benefits to Alaskans over the long-term. The State’s equity participation in the project improves the commercial attractiveness of the project, allows the interests of the various stakeholders to be aligned and helps to advance the project through its development stages.

Bringing in TransCanada as a partner allows the State to share the project’s risks while receiving the benefits of private-sector experience and expertise. The costs to the State associated with this partnership are expected to be offset by the various benefits from TransCanada’s participation in the AKLNG project including:

- Reducing the State’s cash outlays, protecting its cash reserves and credit rating
- Helping maintain momentum on the project
- Bringing in a preeminent pipeline company with northern pipeline experience
- Bringing in a third party whose interests lie in facilitating access and expansions

ALASKA STATE LEGISLATURE
SENATE FINANCE COMMITTEE

Senator Kevin Meyer, Co-Chair
State Capitol, Room 518
Juneau, Alaska 99801-1182
Phone: (907) 465-4945
Fax: (907) 465-3476
Sen.Kevin.Meyer@akleg.gov



Senator Pete Kelly, Co-Chair
State Capitol, Room 516
Juneau, Alaska 99801-1182
Phone: (907) 465-3709
Fax: (907) 465-4714
Sen.Pete.Kelly@akleg.gov

Memo

Date: March 11, 2014

Kevin Meyer

Proposed Changes in Senate Finance CS for CCSB 138 (RES)

Title

Page 1, lines 2-5

The CS adds title language related to the new direction to the Alaska Gasline Development Corporation (AGDC) to advance an Alaska liquefied natural gas project, and sets up a new fund within AGDC for that purpose. Also, conforming changes were added related to expedited review by state agencies of AGDC proposals. Creation of a new subsidiary was removed.

Page 2, line 21, to page 3, line 5

The CS adds direction to the governor to establish an advisory board on municipal involvement in an Alaska liquefied natural gas project; and direction to Alaska Energy Authority (AEA) to develop an energy infrastructure plan.

Page 3, line 6

Finally, the title reflects the addition of local governments and Native corporations to those who may be able, along with Alaskans, to own part of a pipeline project through a plan to be developed by Department of Revenue.

Intent Language

Page 4, line 24

The CS modifies the intent language added in Senate Resources. On page 4, line 21 and line 24, the word "maximum" is removed before "benefit", for clarity. Also, the term "project labor agreements" is amended to read "labor agreements." (SENATE AMENDMENT)

AGDC Sections

The CS makes extensive changes relating to AGDC, including removal of language creating a new subsidiary corporation to do a liquefied natural gas project, giving that duty instead to AGDC.

Page 4, line 30, to page 5, line 9

Adds new overall direction to AGDC, giving AGDC the primary state role in advancing an Alaska liquefied natural gas project. Clarifies that AGDC's overriding mission is to develop projects that benefit the state and Alaskans, including delivering gas instate, providing economic benefits, and providing revenue to the state. Also, adds that AGDC's work developing projects should assist the Department of Revenue and Department of Natural Resources in their duties to maximize the value of the state's royalty gas and gas delivered as production tax.

Page 5. lines 18-25

Modifies original direction to participate in an Alaska liquefied natural gas project; adds that AGDC can't charge a state entity more for gas services than it costs to provide those services.

Page 6. lines 7-8

Adds to AGDC's structure that it is created to act in the best interests of the state, based on its purpose.

Page 6. lines 24-28

In clarifying the relationship between AGDC and state departments also directly involved in a gas project, prohibits the commissioners of Revenue and Natural Resources from serving on AGDC's board. Originally, HB 4 prohibited the commissioners from board service while AGIA (Alaska Gasline Inducement Act) was in effect.

Page 6. line 29 to page 7, line 6

Adds a new subsection directing AGDC's board, to the maximum extent possible, to maximize the efficient use of state resources and to establish appropriate firewalls and separations within the corporation to protect commercially sensitive information.

Page 7. Section 6

Makes conforming changes. The prior version created a subsidiary to work on an Alaska liquefied natural gas project. This version removes creation of a statutory subsidiary, and instead directs the corporation to work on an Alaska liquefied natural gas project and adds distinctions in AGDC's duties and responsibilities between an instate natural gas pipeline and an "Alaska liquefied natural gas project."

Page 9. lines 6-7

Conforming; adds the new "Alaska liquefied natural gas project fund."

Page 9. lines 18-24

Adds a new ability to AGDC to acquire an ownership role in an Alaska liquefied natural gas project, including liquefaction facilities. Later, on page 10, lines 7-10, adds a new subsection that restricts a part

of AGDC working on an instate gas pipeline from exercising the new powers related to a liquefaction project.

Page 9, lines 26-27

Conforming; only an instate natural gas pipeline regulated by the Regulatory Commission of Alaska is required to hold an open season. An Alaska liquefied natural gas project would not have to, and so would not have to disclose results.

Page 10, lines 11-15

Adds a new subsection directing AGDC to provide information relevant to royalty and tax paid with gas contracts to DNR and DOR, subject to confidentiality agreements.

Page 11, lines 27-30

Clarifies that AGDC can create subsidiaries incorporated as nonprofits, or otherwise.

Page 12, section 13

Conforming; adds the new Alaska liquefied natural gas project fund explicitly to AGDC's annual fund reporting requirements under the Executive Budget Act.

Page 12, line 29, to page 13, line 31

Removes changes to the definition of "instate natural gas pipeline." Adds new term, "Alaska liquefied natural gas project," and defines it in the same terms as in the Heads of Agreement for the AK LNG project.

Page 56, line 14

Repeals 31.25.080(f), which previously directed AGDC to accommodate a larger project on certain infrastructure. As this direction is now more fully articulated in AGDC's purpose and the new Section 5, 31.25.080(f) is no longer required.

DNR authority sections

Page 15, lines 7-8

Clarifies that agreements to be entered into by the Department of Natural Resources Commissioner include, but are not limited to, balancing, marketing, disposition of gas, and offtake agreements.
(FAIRCLOUGH AMENDMENT)

Page 15, lines 21-23

Conforming to legislative drafting style; re-words the requirement that the commissioner may share confidential information with the legislature only in executive sessions or under confidentiality agreements.

Page 18, line 8, to page 20, line 9

Re-works sections 18 and 19 (related to the commissioner's ability to modify leases) for greater clarity. (ADMINISTRATION AMENDMENT)

Page 18, lines 29-31

Modifications to net profit shares and sliding scale royalty rates have to yield a value to the state that is no less than the value the state would have received before a modification. Previously, the lower threshold for modifications was set at 12.5%. (ADMINISTRATION AMENDMENT)

Page 20, lines 14-15; 23-24; and 30-31, and page 21, lines 9-11

Conforming changes for clarity.

Page 21, lines 23-28

Adds and defines new term, "initial project term." (ADMINISTRATION AMENDMENT)

Page 22, line 4-24

Adds three new sections with conforming changes. House Bill 369 of 2010 gave special treatment to permits, authorizations and rights-of-way issued to an instate natural gas pipeline project. The changes make those provisions apply to any project under AGDC. (ADMINISTRATION AMENDMENT)

Public information sections

No changes

DOR authority sections

Page 28 – MISSING SECTION, MISSING (15)

Tax sections

Page 28, line 9, to page 29, line 5

The original bill amended the extraction factor used in calculating corporate income tax to accommodate the new concept of taking gas as production tax. This section is new, and amends the sales factor, which is also used in calculating corporate income tax, to incorporate the new tax as gas concept. (ADMINISTRATION AMENDMENT)

(Currently duplicated as drafting error as new section 34, page 29, line 6 to page 30, line 1 – this needs to be deleted.)

Page 30, line 10 and lines 19-20

Clarifies that reinjected gas is not included in calculations for determining corporate income tax due.

Page 31, line 11

Increases the tax on gas from 10.5% to 13% (KELLY AMENDMENT)

Page 33, line 6

Removes the qualifier "irrevocable" from the election a producer can make to pay tax with gas. (KELLY AMENDMENT)

Page 33, line 12 and line 15

Conforms to the prior change increasing the gas tax to 13%.

Page 34, line 21, to page 35, line 3

Conforming change related to the conforming changes already in the prior version related to the educational tax credit.

Page 42, line 11

Conforming to the new 13% gas tax.

Page 56, lines 6-7

The bill changes the definition of "point of production." As the term is used in the Alaska Gasline Inducement Act, this new section 57 clarifies that point of production for purposes of AGIA is defined as it was when AGIA was enacted. (ADMINISTRATION AMENDMENT)

Technical sections

Page 56, lines 15-25

Adds new direction to the governor to establish an advisory board on municipal involvement in a North Slope gas project. (OLSON AMENDMENT)

Page 56, line 26, to page 57, line 16

Adds new direction to the Alaska Energy Authority to develop a plan to extend energy infrastructure to parts of the state without direct access to a North Slope natural gas pipeline. AEA is to consult with AGDC, AIDEA and the Department of Revenue in developing the plan, which is due to the legislature in January 2017. (HOFFMAN AMENDMENT)

Page 57, lines 19-20, line 24, line 27, and page 58 lines 4, 7-8, 11, 12, and 18

In the section requiring the Department of Revenue to develop a plan for Alaskans to participate in owning part of a North Slope natural gas pipeline, adds that the plan should include ways for local governments and Native corporations to also participate. (FAIRCLOUGH/OLSON AMENDMENTS)

Page 59, lines 4-5 and lines 7-8

Makes conforming changes to the effective dates.

Page 59, line 6

Sets an effective date of Jan. 1, 2021, for section 40, which is the conforming section related to the education tax credit.

BWC/RD

Alaska State Legislature

SENATOR PETE KELLY



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To: Senator Fairclough, Chair, LB&A
By: Bruce Campbell, staff *ent*
Re: Testimony for Senate Finance Committee
Date: March 3rd, 2014

Would Enalytica be available to answer the following questions for Senate Finance Committee on Wednesday, March 5th, at 9:00 am? Or Friday, March 7th, at 9:00 am?

- 1) Model cash flow scenarios, cash calls on the State, off ramps, and ability to sell portions of our equity position.
- 2) Provide an inside explanation of the tax structure
 - a. Compare to other countries.
 - b. Are we taxing ourselves out of the market?
 - c. Where is floor and where is ceiling on tax credits.
 - d. Oil underpinning cost recovery.
 - e. Overall government take.
 - f. State's share vs. each of the 3 partners
- 3) Discuss the Feb 27th, presentation with extended modelling to prices below \$10, say to \$7, explain how different scenarios play out at lower gas price.
- 4) What are potential "worst case" scenarios:
 - a. For example, a completed project with continuing debt obligations, and tariff obligations, and Asia switches back to coal.
 - b. How would a significant cost overrun affect the potential revenue.
- 5) Discuss Enalytica's February 20 presentation to S Res, slide 12. What assumptions are built into the analysis about deductions for gas field expenses in the "status quo" situation on the left of the slide.
 - a. Compare the above with expenses modelled for gas production, what does your modelling include as field costs by the producers. Is any of the State's infrastructure envisioned as "Additional State Support" in article 10 of the HOA included in these field costs?
- 6) What level of spending does the State have to maintain to be able to obtain full equity participation at FID?

Cc: Esther Tempel, Administration and Black & Veatch

Black & Veatch:

- 1) Discuss the Feb 19, 2004, slide on page 3. Income projection, please clarify that the increased income to the state from gas production is only gas, not oil and gas.
- 2) Feb 19, 2004, slide on page 3. How do possible modifications to oil tax revenues via changes in royalties (or credits?) under AS 38.05.180 (hh) affect revenues in the graph starting in the 2018 time frame and before first gas? (Where 2018 = earliest date for FID decision).
- 3) Discuss: Slide from Senate Resources titled: When the State is out of Money.
- 4) Discuss the Feb 27th, presentation with extended modelling to prices below \$10, say to \$7, different scenarios at lower gas price.
- 5) What level of spending does the State have to maintain through FID to be able to obtain full equity participation?

Administration:

- 1) AOGCC, Can someone explain the process for determining if gas can be marketed from ANS fields?
- 2) Where is the administration projecting operating costs and cash reserves to be in the 2018 to first gas timeframe?
- 3) The HOA references State infrastructure needed for pipeline, will our other partners participate in these costs?
- 4) HOA, Pg 16, Article 10. Requested written legal analysis from DOL.
- 5) AGDC: Do we need to add language to ensure lowest price of gas at burner tip for Alaskans/
- 6) Do we need to refine directions to AGDC? Timelines? To give Alaskans hope?

Bruce Campbell

From: Bruce Campbell
Sent: Monday, March 03, 2014 6:39 PM
To: Tempel, Esther (DNR)
Cc: Suzanne Armstrong; Tim Grussendorf; Laura Pierre; Erin Shine; Denise Liccioli; John Wood; Peter Fellman
Subject: SB138 Questions for Consultants (pt 2)

Additional questions for Black & Veatch or Admin.

Thanks,

Bruce

From: Peter Fellman
Sent: Monday, March 03, 2014 6:17 PM
To: Bruce Campbell
Cc: Sen. Click Bishop
Subject: some ? SB138

Are costs from the AKLNG project, measuring in the billions of dollars, being deducted from the Producers' oil production tax liability?

1. What is the total anticipated impact of those reductions to the State Treasury through pre-FEED, FEED, and FID?
2. Have you modeled the impact of the oil production tax deductions to the State Treasury during the life of the AKLNG project?
3. Can we see the modeling in committee?

Pete Fellman
Chief of Staff for
Senator Click Bishop
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TransCanada Capital Project Performance



Project	Capital Cost* (\$ Billions)	In-Service Date	Cost Performance	Schedule Performance
Bécancour	0.5	Q3 2006	6% under	15 days late
Tamazunchale	0.2	Q4 2006	8% under	30 days early
Cartier Wind (Phases I-III)	0.6	Q4 2006/07/08	3% under	14 days early
Michigan Storage Expansion	0.1	Q4 2007/08	10% under	On time
Portland Energy Centre	0.7	Q1 2009	2% under	21 days early
Kibby Wind (Phases I & II)	0.4	Q4 2009/10	On budget	On time
Alberta Pipe	0.2	2009/10	29% under	On time
North Central Corridor	0.8	Q2 2010	15% under	On time
Halton Hills	0.7	Q3 2010	On budget	On time
Groundbirch	0.2	Q4 2010	44% under	30 days late
Keystone (Phases I & II)	6.0	Q3 2010/Q1 2011	12% over	On time
Bison	0.6	Q1 2011	11% over	60 days late
Coolidge	0.5	Q2 2011	12% under	On time
Guadalajara	0.4	Q2 2011	On budget	On time

* *TransCanada share in Canadian dollars. Excludes interest during construction. Estimated Keystone (Phases I & II) costs.*

February 27, 2014

Response from TransCanada.