ALASKA LEGISLATURE 2316

HOUSE and SENATE FINANCE COMMITTEE FILES, 2001 - 2002

CSHB519(FIN) - Department of Revenue

PROPERTY TAX WAIVER

Although the Stranded Gas Act calls for the commissioner to negotiate a contract for payments in lieu of taxes, including property taxes, this legislation waives all state and municipal property taxes on the project during construction and in the first 24 months of operation. This also would be imposed upon municipalities, which would not have any option in accepting or rejecting the 100% property tax waiver for the estimated six years total of construction and operation.

The department believes it is premature to waive an estimated $763 million in municipal and state property taxes without first determining if the tax relief would be needed to help make the project economical. (The $763 million estimate is based on the assumption that the tax waiver would apply only to the pipeline, compressor stations along the line, and a gas conditioning plant at Prudhoe Bay.) The department believes such a complete waiver of taxes could be giving away more than necessary to make the project economical. Proponents argue, however, that the state would not be waiving any taxes, since the line would not be built without the waiver.

The tax waiver also could apply to other facilities associated with the gasline. The department believes the language in this legislation is ambiguous and could result in oil and gas producers and/or the project developer reaching further than intended by this bill in an attempt to bring other facilities under the waiver provision. This fiscal note estimate of property tax revenues that would be lost does not include such facilities as additional gas conditioning plants, separation facilities, well conversion and Point Thomson field developments, but the department is concerned that owners of these properties also might construe the waiver to their benefit.

The Stranded Gas Act allows for tax relief or deferral, but the explicit mandate of the Act was to tailor the state's fiscal terms to the particular economics of the project and to maximize the benefit to the people of the state from the development. For example, the Act enables the state to give tax relief where needed to make the project economic, but then recoup its foregone revenue — or more — when the project's economics improve.

Under this bill, however, the state would get nothing in exchange for property tax relief. What happens if the price of gas goes up and the project developer profit enormously from the upside, but the state would lose out on sharing in that additional profit potential as "repayment" for any tax relief granted early in the development? Yes, the legislature could then raise taxes, but this is not the fiscal certainty that the state and potential project sponsors seek from this legislation.

The department recommends changing the waiver provision of this bill to (1) include an opportunity for the state to share in the potential future benefits from the project as part of the package for any tax relief, (2) provide an opportunity for the affected communities to participate in the tax relief discussions, and (3) a tighter definition of facilities eligible for the tax relief.

CSHB519(FIN) - Department of Revenue

DECREASE IN STATE and MUNICIPAL REVENUES

Under Sections 4 and 5 of this legislation:

- The state would lose an estimated $359 million or more in property tax revenues during construction and through the first 24 months of project operation.
- The Fairbanks North Star Borough and North Slope Borough would lose an estimated $404 million or more in property tax revenues during construction and through the first 24 months of production.
- Although the state and the municipalities would never receive this property tax revenue if the project is not built. there is no opportunity to determine whether the tax relief provided by this bill is needed to make the project economic.
- The above property tax estimates are based on a natural gas project carry North Slope gas to Alberta, for distribution to markets in the Lower 48 states. The estimate of lost revenues would be different and would include additional municipalities if the project was an LNG line to tidewater at Valdez or Cook Inlet.
- The affected municipalities would face higher expenses during the influx of construction workers and the resulting demand for increased school, police, road and various other public services. Meeting those demands without the ability to tax the project itself would put a severe strain on local resources. This issue is at least partially met by the section of the legislation that would establish a Natural Gas Pipeline Impact Assistance Fund at the Department of Community and Economic Development. Subject to future legislative appropriations, the department could use the fund to make state grants to affected municipalities.
- One option for localities would be raise property taxes on all other property within their jurisdiction. The state's share of property taxes on the Trans-Alaska Oil Pipeline and other oil and gas facilities already in place is reduced dollar for dollar by property taxes paid to local communities. Therefore increased municipal property taxes in the affected municipalities would reduce the state's oil and gas property tax receipts.

4/24/02

Pacific Rim
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April 24, 2002

Alaska State House of Representatives Finance Committee
Alaska State Capitol
Juneau, AK 99801

Re: Comments on HB 519

Dear Representatives:

I thank you as an Alaskan for the opportunity to provide comments on House Bill 519, a proposed act authorizing priority treatment and providing cer ... tax exemptions for an Alaska North Slope natural gas project.

As a retired energy industry executive with over two decades of technical and business experience in the natural gas industry but speaking now as an Alaskan citizen, *I support HB 519 if the following important changes are added*:

1) **Ensure the application deadline is no later than April 1, 2004.**

   Originally in the bill, the deadline was set as June 30, 2005. If such positive incentives as the tax exemptions worth hundreds of millions of dollars are indeed approved by the State, the State should insist upon a quicker decision to move ahead with the gas project or pull the incentives off the table.

   The Producers may argue that they cannot commit to reaching an agreement by April 1, 2004. Importantly, when the Producers run economic scenarios within their offices and review the data with their corporate executives, they will have to state the benefits of this Act are lost if real action – investors' Board approval of a project - is not taken during 2003 or early 2004. The "consequences" of not moving ahead with an approved gas project becomes greater if this Act's $500-750 million of positive tax relief incentives are eliminated without quick action on their part.

   Do not pass HB 519 without a firm "line in the sand"...the Producers only get these benefits in return for acting by the end of next year or in early 2004. This year is the twenty-fifth anniversary of the startup of Prudhoe Bay, and yet there are still no natural gas sales. The State has given the Producers more than "reasonable time" for meetings, studies and speeches. If these tax exemptions are given, the State should ask for one thing in return: an approved project underway by April 1, 2004.

2) **Grant the property and sales tax exemption only to a well-defined gas project, i.e. only to selected facilities and the main gas trunkline.**

The original draft of HB 519 allowed for tax exemption for "related facilities" which is simply too broad. Suggested wording to clarify what investment is granted tax exemption should be similar to that below:

"The property and sales tax exemption granted by this Act applies only to the following facilities. the new natural gas trunkline in Alaska downstream of the new Prudhoe Bay natural gas conditioning plant and related new compressor stations; and select components, but not all, of the new Prudhoe Bay natural gas conditioning plant that specifically relate to conditioning of the gas to remove impurities to get "pipeline quality" gas for pressurized shipment down the main trunkline.

Components of the natural conditioning plant that are used for ancillary economic purposes are not exempted from property or sales taxes, e.g. equipment for re-injection of gas into the reservoir for oil production pressure maintenance, carbon dioxide pressurization for enhanced oil recovery, or other functions not directly related to manufacturing "pipeline quality" gas for main trunkline shipment. Likewise, other secondary pipelines, gathering lines, or other facilities on the North Slope upstream of the new Prudhoe Bay gas conditioning plant are not exempted from property or sales taxes by this bill and are considered standalone field or facility developments, e.g. Pt. Thomson gas field development, and must separately qualify or apply for economic relief under existing regulations such as the marginal field credits, if proof of economic need warrants such consideration."

3) **Limit the outright incentive exemption from property and sales tax to the period of pipeline construction only. However, do allow in the Act the consideration for an additional two years of tax exemption after gas line startup based on: a) negotiation of this additional two-year tax exemption with Commissioners in the calendar year of startup, when b) pipeline investors must show economic need for an additional two years of tax exemption.**

Perhaps the most controversial part of HB 519 is the outright granting of hundreds of millions of dollars of property tax and sales tax exemption without gas project investors having to show economic data verifying the absolute need for tax exemption to achieve an acceptable investors' rate-of-return.

Proponents of the bill as written argue that the State must grant outright tax relief to help make the project viable and to send a strong signal to Congress that the State is doing its share to help the gas project so that Congress will be more inclined to pass Federal incentive legislation. Some proponents even use the "fear factor" that a gas project will simply not be done by anyone unless HB 519 is passed as is.

Opponents of the bill as written argue that the State should not give away hundreds of millions of dollars of tax relief without gas project investors actually showing economic calculations that the relief is needed for an acceptable return. In particular, opponents argue that the tax relief should not be granted for any period after gas pipeline startup when the investors start receiving substantial revenues. For example, if gas sales volumes are 4 billion cubic feet per day as forecasted and assuming a nominal pipeline tariff of $2.50 per thousand cubic feet from the North Slope to the Lower 48 market, pipeline investors' revenues will total $10 million per day, or over $300 million per month! Opponents argue there should not be property tax exemption once these tariff revenues begin.

I propose a compromise. I do believe the State must grant some substantial incentive to help "jump start" the gas project with billions of dollars of investments at stake. But I also believe there should not be tax exemption after the calendar year of gas sales startup without proof of economic need. To compromise, allow the outright grant of property tax exemption during construction and through the calendar year of gas line startup...this is still several hundred millions of dollars of tax relief. At the time of startup, if factors indicate the project rate-of-return is not acceptable, the investors can apply to the Commissioners for an additional two years of property and sales tax exemption conditional upon their showing economic data indicating need for additional tax relief.

I sincerely hope these changes can be made to HB 519. I further nope that these changes address the concerns of proponents and opponents so that all can join together in a common goal: *the State helping assist a gas project that actually gets approved and completed by a consortium of investors*. Many of us in the State are tired of studies and future promises. Now is the time for action not only by the State and Federal governments, but also by the producers, pipeline companies and other investors who should stop talking and start building!

I'm for ***"Gas To The States In 2008"***, but I can also accept ***"Gas Down The Line In 2009"!*** *Let's* make this exciting project for Alaska's future happen now!

Sincerely,

Ken Thompson
President, Pacific Rim Leadership Development LLC

adn.com
Anchorage Daily News

Gas line price tag called too high

By Tony Hopfinger
Anchorage Daily News
(Published: April 27, 2002)

Oil companies have concluded a proposed $20 billion natural gas pipeline from Alaska to the Lower 48 doesn't make financial sense, but they will continue pushing government to lower the project's risks.

The companies on Thursday briefed state officials, saying the pipeline's price tag has risen by more than $2 billion from their early estimates. While they are still interested, the companies said, the project would not return enough profit given the huge financial risks.

BP, Phillips and Exxon Mobil are encouraging the state and federal governments to ensure any project wouldn't become bogged down in permitting delays. Project boosters want the companies to get tax breaks, subsidies and other incentives.

The companies also told the state that any pipeline that gets built could carry far more gas than they projected last year, giving the state far more revenue.

The gas pipeline idea sprang back to life about 18 months ago after two decades of dormancy. Natural gas prices were spiking, causing gas shortages in the Lower 48, where gas is increasingly burned for electricity and home heating.

Prices have since subsided. The uncertainty of future prices has heaped risk onto the project, especially when it would be far cheaper to tap smaller gas reserves in the Canadian Arctic to boost Lower 48 supplies.

While uncertainty pesters the pipeline idea, many state leaders and gas analysts remain optimistic somebody will eventually tap North Slope gas -- North America's largest proven gas reserves. The dream is fueled by a growing urgency as state lawmakers struggle with a static oil industry and expected budget shortfalls.

"A gas pipeline will not be a huge gusher of money to the state like oil has been, but it will certainly help stabilize and diversify the economy," said Bob King, a governor spokesman.

Phillips, Exxon and BP estimate they would pay the state and local governments about $50 billion in fees and taxes over the 30 years or so they operate the pipeline, double last year's estimate.

But state economists have tagged the state's cut at about $28 billion.

"We're not accusing (the companies) of lying, but that is just not the number we're getting," said

Larry Persily, the state's deputy revenue commissioner.

The state owns the Slope's proven gas reserves of 35 trillion cubic feet. BP, Phillips and Exxon Mobil -- which have rights to produce it -- have said for several months that their final analysis would show the project remains too risky given the costs.

The oil companies spent $125 million studying the cost of threading the line about 3,500 miles to Chicago along an Alaska Highway route through the state or under the Beaufort Sea and across the Canadian Arctic.

The highway route came in at $19.4 billion -- $2.2 billion more than their initial estimates. The northern route would cost $18.6 billion, up from $15.1 billion. The companies said uncertainty means actual costs could be 20 percent lower or higher than their estimates.

One reason for the increase is the companies are now looking at using a larger pipe that would move more gas, said Ken Konrad, head of BP's natural gas development team in Alaska.

The companies have been asking government to help reduce risks. And Congress and the state Legislature have taken industry suggestions seriously.

The energy bill the U.S. Senate approved this week, for instance, would give pipeline operators a tax credit whenever gas prices fell below $3.25 per million BTU, roughly today's price.

The Legislature is considering a handful of incentives, including tax-exempt bonds to build the line and a $760 million tax holiday during construction and the early years of gas production.

The gas line has wide support among state lawmakers. Many have pegged a gas line through the heart of Alaska as a quest to give the state one more boom, the likes of which Alaskans haven't seen since the construction of the 800-mile trans-Alaska oil pipeline in the 1970s.

Leaders are increasingly feeling the pressure to diversify the state's oil-dependent economy. Oil funds about 80 percent of the state's general budget and is why Alaskans don't pay a state income tax.

But Alaska's daily oil production of about 1 million barrels a day is about half the peak reached in 1988. Alaska now faces future budget shortfalls as a state savings account used to balance the budget could run dry in three or four years.

Reporter Tony Hopfinger can be reached at thopfinger@adn.com or 907 257-4344.

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4/23/02

adopted 4/24/02

CS FOR HOUSE BILL NO. 519(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SECOND LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): **HOUSE RULES COMMITTEE**

A BILL

FOR AN ACT ENTITLED

"An Act authorizing priority treatment under the Right-of-Way Leasing Act for an Alaska North Slope natural gas project; expanding the scope for the kinds of gas development projects that may become qualified projects under the Alaska Stranded Gas Development Act to natural gas projects, including an Alaska North Slope natural gas pipeline and any spurs; extending the deadline for submitting applications under the Alaska Stranded Gas Development Act; exempting an Alaska North Slope natural gas project from state and municipal property taxes during construction and initial operation, and eliminating the authority of a municipality to levy a sales or use tax on property or services used or to be used on the project; and providing for an effective date."

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

* Section 1. The uncodified law of the State of Alaska is amended by adding a new section

to read:

FINDINGS AND INTENT. The legislature finds that

(1) a vast quantity of gas in Alaska is currently stranded from commercial development, in part due to the cost associated with providing access to markets for that gas; the Alaska North Slope has the largest known discovered natural gas resources, estimated to be 35 trillion cubic feet, in the United States and has undiscovered gas resources estimated to be in excess of 100 trillion cubic feet;

(2) demand for natural gas in the lower 48 states is expected to experience record growth; the lower 48 states have an inadequate resource base to meet this expected demand, and there is an urgency to make an Alaska natural gas pipeline project move forward to fill this gap with North American gas rather than with gas from uncertain sources overseas;

(3) it is important for the United States to have a reliable and affordable source of domestic natural gas for energy for its economy, for the well-being of its citizens, for the growth of its businesses, and for the national security;

(4) the North Slope of Alaska is one of the few known locations in the United States that can supply significant natural gas supplies to the lower 48 states for years to come;

(5) during the past three decades, several companies and entities have studied different ways to commercialize Alaska North Slope gas and have been unsuccessful in identifying an economic project; most recently, the three major producers, through their Alaska Gas Producers Pipeline Team, have studied a southern route approximately following a route along the Trans Alaska Pipeline System from Pump Station One to Delta Junction and along the Alaska Highway through Alaska and Canada to the lower 48 states and a northern route off the shore of the Arctic National Wildlife Refuge in the Beaufort Sea, and have concluded that neither is sufficiently economic, given the magnitude of the risks associated with the project; however, at least one producer has indicated a willingness to proceed further if federal and state enabling legislation with provisions to mitigate long-term natural gas price risks and for fiscal certainty and incentives is enacted;

(6) the major producers have proposed new federal enabling legislation that they believe will expedite the construction and operation of a natural gas pipeline from the North Slope to the lower 48 states;

(7) in addition to the state's receipt of revenue from taxes and royalties,

Alaskans will benefit from the commercialization of Alaska North Slope natural gas through opportunities for in-state use of the natural gas and for participation by Alaskans in construction, maintenance, and operation of a natural gas pipeline project;

(8) because of the high cost of providing access to markets for Alaska North Slope gas, exploration efforts on the North Slope have historically focused on oil; recently, some companies have expressed interest in gas exploration; if the infrastructure needed to provide access to market for Alaska North Slope gas were available, new gas exploration efforts might be initiated on the Alaska North Slope and in other basins that currently remain largely unexplored for oil and gas; it is vital to the State of Alaska that there be continued and robust exploration and development of natural gas resources on the Alaska North Slope;

(9) Alaskans need a portion of the gas from a natural gas pipeline project for in-state use; however, it is unlikely that markets will develop within the state that would need more than a relatively small portion of the volume of gas already discovered on the Alaska North Slope; it is vital for economic development that Alaska communities and businesses have access under fair and reasonable terms to the pipeline for in-state use of Alaska North Slope natural gas;

(10) the construction and operation of a natural gas pipeline in the state and the sale of Alaska North Slope gas is critical to the health and welfare of the state;

(11) for a natural gas pipeline project to become economically viable and competitive, the estimated costs of constructing the project and the associated financial risk must reduced significantly; changes in the local, state, and federal tax structure may also be necessary to make commercialization of the gas resources economically viable by, in part, structuring tax and royalty incentives related to the project and providing as much clarity and certainty as possible regarding the taxes that would apply to a project throughout its life;

(12) art. IX, sec. 4, Constitution of the State of Alaska, empowers the legislature to create tax exemptions by general law, and the creation of tax exemptions to make Alaska North Slope gas commercially viable and competitive is consistent with the legislature's responsibility under art. VIII, sec. 2, Constitution of the State of Alaska;

(13) good faith efforts by producers and other companies engaged in the design, construction, and operation of the natural gas pipeline voluntarily to provide employment opportunities for Alaska residents and opportunities for Alaska businesses are in

the long-term interests of the state;

(14) there has been a history of costly disputes between producers of oil and the state over the determination of the production taxes due for oil produced and sold, in part because of disputes over the definition of terms pertinent to the calculation of the tax;

(15) it is in the state's best interest to provide clarity and certainty to the process of determining a producer's tax and royalty liability, AS 43.82 (Alaska Stranded Gas Development Act) provides, among other provisions, in AS 43.82.020, 43.82.200, and 43.82.210, mechanisms for the state and the sponsor of a North Slope natural gas pipeline project to negotiate a contract that could provide that clarity and certainty and resolve other important issues, including accommodating the interests of affected municipalities.

* **Sec. 2.** AS 38.35 is amended by adding a new section to read:

Sec. 38.35.240. Expeditious priority treatment by state officials and agencies in support of development and construction of an Alaska North Slope natural gas project under this chapter. (a) In the development and construction of an Alaska North Slope natural gas project that requires the grant of a right-of-way lease under this chapter, every state official and agency shall give full cooperation to the commissioner, or to any official to whom delegation of the authority of the commissioner is made by or under law, consistent with the provisions of the law administered by the official or agency, by issuing or granting necessary permits. certificates, authorizations, and similar actions required to be taken at the earliest practicable date, with action to be taken on an expedited basis and, notwithstanding any other provision of law, having precedence over any like matter pending before the official or agency.

(b) In the commissioner's consideration of an application under this chapter for a lease for the Alaska North Slope natural gas project, the commissioner may limit the scope of review, analysis, and finding for the applicant's proposed lease application under this chapter to a particular phase of the project if, in the judgment of the commissioner, the project is capable of proceeding in discrete phases and

(1) the uses and activities involving the project on the land for which the approval is to be granted are part of that discrete phase;

(2) before the next phase of the project may proceed, the commissioner

gives public notice and opportunity for comment about that phase, unless the use or activity to be approved is subject to a consistency determination under AS 46.40 and public notice and the opportunity to comment are provided under AS 46.40.096(c);

(3) the commissioner's approval is required before the next phase of the project may proceed; and

(4) the commissioner sets out the reasons for proceeding on the application in discrete phases.

(c) In this section, "Alaska North Slope natural gas project" means "North Slope natural gas pipeline" as set out in AS 38.35.120(a)(1)(B), including the facilities that are necessary for, and to the extent used for, treating and conditioning the gas to be transported, and the components of the processing plant associated with natural gas conditioning, to be constructed to follow generally a route that parallels the Trans Alaska Pipeline System and the Alaska Highway to the Canadian border, or to tidewater for liquefied natural gas, and any spur lines to serve people in the state, to transport natural gas derived from the area of the state lying north of 64 degrees North latitude.

* **Sec. 3.** AS 43.56.020(a) is amended to read:

(a) The following are exempt from local taxes levied or authorized under AS 43.56.010(b):

(1) property rights attached to or inherent in the right to explore for or produce oil or gas;

(2) oil or gas leases or properties, whether producing or not;

(3) oil or gas in place;

(4) oil or gas produced or extracted in the state;

(5) the value of intangible drilling expenses and exploration expenses;

(6) an interest in property described in AS 43.55.017(a)**;**

(7) an interest in taxable property that is part of an Alaska North Slope natural gas project, whether or not, under AS 43.82, the project has been determined by the commissioner of revenue to meet the requirements of AS 43.82.100, from the project's construction commencement date, as determined by the commissioner, until December 31 of the second calendar year after the

calendar year in which the project is placed in service; for purposes of this paragraph, "Alaska North Slope natural gas project" has the meaning given in AS 38.35.240.

* Sec. 4. AS 43.56.020(b) is amended to read:

(b) There is exempt from state taxes levied or authorized under AS 43.56.010(a),

(1) before the construction commencement date, property that is committed by contract or other agreement for use in this state primarily for the production or pipeline transportation of gas or unrefined oil, or in the operation or maintenance of facilities for the production or pipeline transportation of gas or unrefined oil**; and**

(2) taxable property described in (a)(7) of this section, subject to the procedures set out in (d) of this section.

* Sec. 5. AS 43.56.020 is amended by adding new subsections to read:

(d) For the Alaska North Slope natural gas project, the exemptions provided in (a)(7) and (b)(2) of this section do not apply unless a taxpayer, or a person acting under contract with the taxpayer or the project's sponsor,

(1) complies with all relevant requirements of 15 U.S.C. 717z (Natural Gas Act) and 15 U.S.C. 719 - 719o (Alaska Natural Gas Transportation Act of 1976), as applicable to the project;

(2) complies with all valid federal, state, and municipal laws relating to hiring Alaska residents and contracting with Alaska businesses to work in the state in the design, construction, and operation of the project to the extent the residents and businesses are available, competitively priced, and qualified, and the taxpayer or project sponsor does not discriminate against Alaska residents or businesses;

(3) advertises for available positions in newspapers in the location where the work is to be performed and in other publications distributed throughout the state, including in rural areas, and uses Alaska job service organizations located throughout the state and not just in the location where the work is to be performed in order to notify Alaskans of work opportunities on the project;

(4) within the constraints of law, encourages the owner's contractors to

train and subsequently to hire state residents consistent with (2), (3), and (5) of this subsection;

(5) recruits, within the constraints of law, and employs state residents as workers on available jobs; the owner shall prepare and submit to the commissioner of labor and workforce development

(A) on an annual basis, a report that sets out in detail the specific measures that the owner and the owner's contractors have taken or are planning to take

(i) to recruit qualified state residents for available jobs and that describes job training opportunities; and

(ii) to use Alaska businesses;

(B) on a quarterly basis, a report concerning the use of state residents, including the number of residents hired or employed during the previous period;

(6) makes, to the extent permitted by law, reasonable efforts

(A) to employ Alaska firms that are available and qualified to perform engineering and construction services; and

(B) to fabricate or manufacture in the state needed gas production and pipeline modules and other facilities.

(e) The provisions of (d) of this section do not create or abridge individual rights and do not create a private right of action or claim by any person.

* **Sec. 6.** AS 43.56.030 is amended to read:

Sec. 43.56.030. In place of other taxes. Except for those taxes imposed under AS 43.55, the taxes levied or authorized under AS 43.56.010(b) are in place of **<u>all other</u>**

(1) [ALL OTHER] ad valorem taxes or other taxes imposed by a municipality on property subject to tax under this chapter or exempted from taxation by AS 43.56.020; and

(2) [ALL OTHER] taxes imposed by a municipality on or with respect to the property subject to tax under this chapter or exempted from taxation by AS 43.56.020, including, but not limited to,

(A) taxes on the retail sale or use of the property except for the retail sales tax on the first $1,000 of each sale; **<u>however, the exception for retail sales or use taxes on the first $1,000 of each sale does not apply to a retail sale or use involving property used or committed by contract or other agreement for use in the development, construction, operation, or maintenance of an Alaska North Slope natural gas project as that term is defined in AS 38.35.240;</u>**

(B) taxes on the sale or use of gas or unrefined oil;

(C) taxes on the sale or use of services used in or associated with the property or in its maintenance or operation except for the sales tax on the first $1,000 of each sale; **<u>however, the exception for retail sales or use taxes on the first $1,000 of each sale does not apply to a retail sale or use involving services used in or associated with the property used or committed by contract or other agreement for use in the development, construction, operation, or maintenance of an Alaska North Slope natural gas project as that term is defined in AS 38.35.240;</u>**

(D) taxes on or measured by gross or net income from the property, including income from the exploration for, production of, or pipeline transportation of gas or unrefined oil or property; and

(E) any license, excise, fee, charge, or other tax on or pertaining to the property or services.

* Sec. 7. AS 43.56.210(2) is amended to read:

(2) "construction commencement date" means**<u>, for property subject to tax under this chapter used in the exploration for, production of, or pipeline transportation of unrefined oil through a facility the construction of which was begun before April 1, 1974,</u>** the earlier of April 1, 1974, or the date the following occur**<u>, and, for property subject to tax under this chapter used in the exploration for, production of, or pipeline transportation of North Slope natural gas through an Alaska North Slope natural gas project, as that term is defined in AS 38.35.240, the date on which all of the following have occurred</u>**:

(A) there has been issued to the owner or an agent of the owner right-of-way permits, leases, and title and other rights in land, and other approvals, permits, licenses, and certificates, by federal, state, and local agencies that a reasonable and prudent person would consider adequate to commence construction of the facilities in the expectation that all other approvals, permits, licenses, and certificates necessary for the completion of facilities will be obtained;

(B) all approvals, permits, licenses, and certificates are in full force and effect, unrevoked and without any modification that might jeopardize the completion or continued construction of the facilities; and

(C) no order, judgment, decree, determination, or award of a federal, state, or local court or administrative or regulatory agency enjoining, either temporarily or permanently, the construction or the continuation of construction of the facilities is in effect;

* **Sec. 8.** AS 43.82.100 is amended to read:

Sec. 43.82.100. Qualified project. Based on information available to the commissioner, the commissioner may determine that a proposal for new investment is a qualified project under this chapter only if the project

(1) is a project **that principally involves**

(A) the transportation of natural gas by pipeline to one or more markets outside the state, including an Alaska North Slope natural gas project as that term is defined in AS 38.35.240; or

(B) [FOR] the export of liquefied natural gas **from the state to one or more other states or countries**;

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

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

* **Sec. 9.** AS 43.82.170 is amended to read:

Sec. 43.82.170. Application deadline. The commissioner of revenue or the commissioner of natural resources may not act on an application for a contract submitted under AS 43.82.120 unless the application is received by the Department of Revenue no later than **April 1, 2004** [JUNE 3 , 2001].

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

RETROACTIVITY. Sections 8 and 9 of this Act are retroactive to July 1, 2001.

* **Sec. 11.** Sections 3 - 7 of this Act are effective January 1, 2003.

* **Sec. 12.** Except as provided in sec. 11 of this Act, this Act takes effect immediately under AS 01.10.070(c).

By: Hank Bartos
Guy Sattley
Introduced: 04/25/02
Adopted: 04/25/02

RESOLUTION NO. 2002 - 41

A RESOLUTION SUPPORTING THE APPROVAL, CONSTRUCTION AND OPERATION OF AN ALASKAN NATURAL GAS LINE PROJECT

WHEREAS, the United States Senate is currently discussing the Energy Policy Act of 2002, which provides a comprehensive energy plan for the United States of America, with specific provisions favorable to Alaska, including but not limited to, language supporting a southern route from the North Slope through Fairbanks, Alaska and Canada, access to natural gas and commodity risk provisions; and

WHEREAS, the Alaska Legislature is currently considering a number of legislative initiatives to promote the construction and operation of an Alaska Natural Gas Line Project such as House Bill 302, House Bill 519 and Senate Bill 360; and

WHEREAS, House Bill 302 by Representative Whitaker would create a state-owned corporation to transport and market Alaska North Slope natural gas; and

WHEREAS, Senate Bill 360, among other provisions, establishes certain requirements for applications filed for Alaska Natural Gas projects; authorizes expeditious priority treatment of all applications filed under the Act; authorizes the Commissioner of Natural Resources to act, with legislative approval, to modify terms of certain oil and gas leases; authorizes the Commissioner of Revenue to act, with legislative approval, to waive, reduce or defer taxes, including state and municipal property taxes; authorizes the Alaska Railroad to provide a tax exempt financing for an Alaska Natural Gas project; ensures access to state royalty gas for Alaska and promotes employment of Alaskans and Alaska firms in the construction and operation of a project; and

WHEREAS, House Bill 519, among other provisions, would reauthorize the Alaska Stranded Gas Development Act of 1998; expands the definition of a qualifying project to include a natural gas pipeline to serve markets outside Alaska; provides for the expeditious priority treatment by state officials in support of an Alaska North Slope Gas Project; encourages employment of Alaska residents and businesses, including the use of Alaska firms to perform engineering, construction, services and in-state fabrication of production and pipeline modules; specifically exempts the Alaska Natural Gas project from paying state and municipal property taxes during construction and through the second full year of production; and

WHEREAS, the Alaska Stranded Gas Development Act of 1998, among other provisions, authorized the State of Alaska to develop contracts with producers, in lieu of taxes, which would establish the fiscal regime that reduces the risk and improves the economics of a stranded gas development project, that otherwise would not be developed under prevailing tax and royalty regimes; and

WHEREAS, it has been estimated by the Department of Revenue that the provisions in House Bill 519 waiving state and municipal property taxes will cost the state and local governments in excess of $500 - $760 million dollars, of which between $20 - $40 million dollars could be lost to the residents of the Fairbanks North Star Borough; and

WHEREAS, while the Alaska Stranded Gas Development Act and Senate Bill 360 give the Commissioner of Revenue the authority to waive, reduce or defer the levy and collection of state and municipal property taxes, they both have provisions requiring the Commissioner to work with pipeline impacted communities; and

WHEREAS, Exxon, Phillips Petroleum and British Petroleum have completed a study of Alaska Natural Gas Line projects and have yet to release vital economic information on the project(s); and

WHEREAS, House Bill 519 would specifically eliminate state and municipal property taxes, for a period of at least 6 years without regard to its impact on affected municipalities, including the Fairbanks North Star Borough.

NOW, THEREFORE, BE IT RESOLVED, that the Fairbanks North Star Borough Assembly supports efforts by our Congressional Delegation, Governor and Alaska Legislature to adopt appropriate fiscal regimes that encourage the immediate construction of an Alaska Natural Gas Line project. The Assembly further believes that, if the construction of a project would not be economically feasible, it would be appropriate for the Fairbanks North Star Borough to consider the deferral of property taxes on certain defined oil and gas properties within its geographical boundaries.

BE IT FURTHER RESOLVED, that such a deferral of oil and gas property taxes would be for the construction portion of the Alaska Natural Gas Line project only and not during any operating phases of the gas line; that the Alaska Legislature adopt a property tax reimbursement scheme for the payback of deferred property taxes to affected municipalities similar to Senator Murkowski's recent commodity risk amendment adopted by the United States Senate, that such a municipal property tax exemption have a sunset date of July 1, 2003; that the State of Alaska establish a fund, available to municipalities, to deal with the social economic impacts during the construction of the estimated $20 billion dollar project and that valuations of oil and gas properties within the geographical boundaries of a municipality, currently the exclusive jurisdiction of the State of Alaska, be changed to the exclusive jurisdiction of the municipality in which oil and gas properties are located.

PASSED AND APPROVED THIS 25th DAY OF APRIL 2002.

Hank Bartos

Hank Bartos
Presiding Officer

ATTEST:

Mona Lisa Drexler, CMC

Mona Lisa Drexler, CMC
Municipal Borough Clerk

Ayes: Henry, Williams, Beck, Webb, Foote, Cummings, Sattley, Bartos
Noes: Hutchison

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: CSHB519(RES)
() Publish Date:

Revision Date/Time (Note if correction):
Title: Natural Gas Pipeline Special Provisions
Sponsor: House Rules Committee
Requester: House Resources Committee

Dept. Affected: Revenue
BRU: Administration and Support
Component: Office of the Commissioner
Component No. 123

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	83.0	83.0				
Travel	30.0	30.0				
Contractual	250.0	250.0				
Supplies	5.0	5.0				
Equipment	6.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	374.0	368.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )			(19,000.0)	(50,000.0)	(69,000.0)	(76,000.0)

FUND SOURCE (Thousands of Dollars)

FUND SOURCE	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
1002 Federal Receipts						
1003 GF Match						
1004 GF	124.0	118.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Statutorily Designated Receipts	250.0	250.0				
TOTAL	374.0	368.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal: [ ]

POSITIONS

POSITIONS						
Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

See attached pages.

Prepared by: Larry Persily, Deputy Commissioner — Phone 465-5469
Division: Department of Revenue — Date/Time 4/23/02 8:29 AM
Approved by: Wilson Condon, Commissioner — Date 4/23/2002
Agency: Department of Revenue

(Revised 8/2001 OMB)

CSHB519(RES) - Department of Revenue

OVERVIEW

This legislation would reauthorize the Alaska Stranded Gas Development Act under AS 43.82. The act expired June 30, 2001, and this legislation would extend the application date for a project sponsor from June 30, 2001 to June 30, 2005.

The Stranded Gas Development Act, adopted by the 1998 Legislature, authorized the Commissioner of Revenue to negotiate a contract for payments in lieu of taxes with the developer of an LNG project to commercialize Alaska's North Slope natural gas reserves. No project sponsor applied under the act before it expired last year. The intent of the legislation was to provide a mechanism whereby the state could help promote commercialization of its natural gas reserves by structuring payments in lieu of taxes to help relieve the burden on a project sponsor in the early years, when cash flow is not positive, and in return receive a larger share of the revenues in later years after the project sponsor had recovered its heavy development costs. This also would allow the state to receive a greater share of the revenues in later years if gas prices increased.

The Stranded Gas Act allows for a negotiated contract for payments in lieu of one or some or all of the following taxes:

- Production taxes and surcharges
- Oil and gas production property taxes (state and municipal portions) under AS 43.56)
- Municipal property taxes
- Municipal special assessments
- Corporate income taxes
- Municipal sales and use taxes

This legislation (HB 519) also expands the definition of a qualifying project under the Stranded Gas Act to include a natural gas pipeline to serve markets outside Alaska. In addition, this legislation clarifies the definition of a qualifying LNG project to include any project that serves Lower 48 states or overseas markets.

A negotiated contract would make it possible to tailor the state's fiscal regime to meet the needs of a natural gas project while, at the same time, ensuring that the public benefits from the project. A set of arrangements providing for contractual payments in lieu of taxes could provide the fiscal certainty that potential investors will want for the life of the project.

CSHB519(RES) - Department of Revenue

COST OF LEGISLATION

The fiscal note for this legislation includes the following costs and assumptions leading up to the costs:

- We assume the state would receive a project application early in Fiscal 2003.
- Negotiating the contract for payments in lieu of taxes would start immediately, and would be completed with the conclusion of the 2004 legislative session.
- Project construction would start in Fiscal 2005 and continue through Fiscal 2008.
- Natural gas production would start in Fiscal 2009.
- A special assistant to the commissioner would be hired for Fiscal 2003 and 2004 to coordinate the Department of Revenue's work with the project sponsor and the affected communities.
- Travel, supplies and equipment costs would be associated with the new position and with the department's overall effort to meet with the project applicant and officials of the affected communities.
- The contractual expenses would be incurred in two areas:
  1. Oil and gas economic and tax consultants to advise the department in negotiating with the project applicant and structuring a contract for payment in lieu of taxes that is both advantageous to the project and provides for a fair return to the state on the publicly owned resource.
  2. Additional consultants to help the department prepare socioeconomic impact studies on the affected communities, to be used in determining the financial needs of the communities and negotiating with the project applicant.

The cost of the new position, travel, contractual and supplies is requested from the general fund. That total is $116,000 in Fiscal 2003 and $110,000 in Fiscal 2004.

The cost of the independent consultants allowed under AS 43.82.240 to assist in the department's evaluation of the project application and in developing terms of the contract could be reimbursed by the applicant. The statute allows the commissioner to condition the contract on agreement by the applicant to reimburse the state for the expenses of the independent contractors. Those funds are requested as authority to receive and expend statutorily designated program receipts. Those costs are $250,000 each in Fiscal 2003 and Fiscal 2004.

CSHB519(RES) - Department of Revenue

PROPERTY TAX WAIVER

Although the Stranded Gas Act calls for the commissioner to negotiate a contract for payments in lieu of taxes, including property taxes, this legislation waives all state and municipal property taxes on the project during construction and in the first two full years of operation. This also would be imposed upon municipalities, which would not have any option in accepting or rejecting the 100% property tax waiver for the six or seven years of construction and operation.

The department believes it is premature to waive an estimated $763 million in state and municipal property taxes without first determining if the tax relief would in fact be needed to help make the project economical. The department's new estimate is based on better numbers for the value of the project within Alaska. Such a complete waiver of taxes could be giving away more than is necessary to make the project economical. Although proponents argue the state would not really be waiving any taxes, since the project would not be built without the waiver, it is irresponsible to give away the right to taxes without knowing its effect on the project's economic feasibility.

The tax waiver also would apply to "related facilities," which the department believes is ambiguous and could result in oil and gas producers and/or the project developer reaching further than intended by this bill to bring "related facilities" under the waiver provision. This fiscal note estimate of property tax revenues that would be lost does not include such "related facilities" as expansion of the Prudhoe Bay saltwater treatment plant, separation facilities, well conversion and Point Thomson field developments, but the department is concerned that owners of these properties also might construe the waiver to their benefit.

The Stranded Gas Act allows for tax relief or deferral, but the explicit mandate of the Act was to tailor the state's fiscal terms to the particular economics of the project and to maximize the benefit to the people of the state from the development. For example, the Act enables the state to give tax relief where needed to make the project economic, but then recoup its foregone revenue — or more — when the project's economics improve.

Under this bill, however, the state would get nothing in exchange for property tax relief. What happens if the price of gas goes up to $5 or more per mcf? The project developers would profit enormously from the upside, and the state would lose out on sharing in that additional profit potential as "repayment" for any tax relief granted early in the development. Yes, the legislature could then raise taxes, but this is not the fiscal certainty that the state and potential project sponsors seek from this legislation.

The department recommends changing the waiver provision of this bill to (1) include an opportunity for the state to share in the potential future benefits from the project as part of the package for any tax relief, (2) provide an opportunity for the affected communities to participate in the tax relief discussions, and (3) a needs test for the tax relief.

CSHB519(RES) - Department of Revenue

DECREASE IN STATE and MUNICIPAL REVENUES

Under Sections 4 and 5 of this legislation:

- The state would lose an estimated $359 million or more in property tax revenues during construction and through the second full year of project operation.
- The Fairbanks North Star Borough and North Slope Borough would lose an estimated $404 million or more in property tax revenues during construction and through the second year of production.
- Although the state and the municipalities would never receive this property tax revenue if the project is not built, there is no opportunity to determine whether the tax relief provided by this bill is needed to make the project economic.
- This bill does not provide a mechanism to provide funding to affected state agencies and municipalities that experience additional costs because of the impact of the project. The department believes those impact costs could be substantial.
- The above property tax estimates are based on a natural gas project carrying North Slope gas to Alberta, for distribution to markets in the Lower 48 states. The estimate of lost revenues would be different and would include additional municipalities if the project was an LNG line to tidewater at Valdez or Cook Inlet.
- The affected municipalities would face higher expenses during the influx of construction workers and the resulting demand for increased school, police, road and various other public services. Meeting those demands without the ability to tax the project itself would put a severe strain on local resources.
- One option for localities would be raise property taxes on all other property within their jurisdiction. The state's share of property taxes on the Trans-Alaska Oil Pipeline and other oil and gas facilities already in place is reduced dollar for dollar by property taxes paid to local communities. Therefore increased municipal property taxes in the affected municipalities would reduce the state's oil and gas property tax receipts.

Section 7 of this legislation would exempt the natural gas project from municipal sales and use taxes. The department is unable to estimate the fiscal impact of this provision on municipalities.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB519
() Publish Date:

Revision Date/Time (Note if correction):
Dept. Affected: Revenue
BRU: Administration and Support
Component: Office of the Commissioner
Component No. 123

Title	Natural Gas Pipeline Special Provisions
Sponsor	House Rules Committee
Requester	House Oil and Gas Committee

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	83.0	83.0				
Travel	30.0	30.0				
Contractual	250.0	250.0				
Supplies	5.0	5.0				
Equipment	6.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	374.0	368.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )			(1,000.0)	(22,000.0)	(35,000.0)	(53,000.0)

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	124.0	118.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
Statutorily Designated Receipts	250.0	250.0				
TOTAL	374.0	368.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

See attached pages.

Prepared by: Larry Persily, Deputy Commissioner
Phone 465-5469
Division: Department of Revenue
Date/Time 4/18/02 12:34 PM
Approved by: Wilson Condon, Commissioner
Date 4/18/2002
Agency: Department of Revenue

(Revised 9/2001 OMB)

HB 519
Department of Revenue

OVERVIEW

This legislation would reauthorize the Alaska Stranded Gas Development Act under AS 43.82. The act expired June 30, 2001, and this legislation would extend the application date for a project sponsor from June 30, 2001 to June 30, 2005.

The Stranded Gas Development Act, adopted by the 1998 Legislature, authorized the Commissioner of Revenue to negotiate a contract for payments in lieu of taxes with the developer of an LNG project to commercialize Alaska's North Slope natural gas reserves. No project sponsor applied under the act before it expired last year. The intent of the legislation was to provide a mechanism whereby the state could help promote commercialization of its natural gas reserves by structuring payments in lieu of taxes to help relieve the burden on a project sponsor in the early years, when cash flow is not positive, and in return receive a larger share of the revenues in later years after the project sponsor had recovered its heavy development costs. This also would allow the state to receive a greater share of the revenues in later years if gas prices increased.

The act allows for a negotiated contract for payments in lieu of one or some or all of the following taxes:

- Production taxes and surcharges
- Oil and gas production property taxes (state and municipal portions) under AS 43.56)
- Municipal property taxes
- Municipal special assessments
- Corporate income taxes
- Municipal sales and use taxes

This legislation (HB 519) also expands the definition of a qualifying project under the Stranded Gas Act to include a natural gas pipeline to serve markets outside Alaska. In addition, this legislation clarifies the definition of a qualifying LNG project to include one that serves Lower 48 states or overseas markets.

A negotiated contract would make it possible to tailor the fiscal arrangements to meet the needs of the proposed project while, at the same time, ensuring that the public benefits from the project. A set of arrangements providing for contractual payments in lieu of taxes could provide fiscal terms that potential investors will believe are likely to remain permanently in place over the life of the project.

HB 519
Department of Revenue

COST OF LEGISLATION

The fiscal note for this legislation includes the following costs and assumptions leading up to the costs:

- We assume the state would receive a project application early in Fiscal 2003.
- Negotiating the contract for payments in lieu of taxes would start immediately, and would be completed at the conclusion of the 2004 legislative session.
- Project construction would start in Fiscal 2005 and continue through Fiscal 2008.
- Natural gas production would start in Fiscal 2009.
- A special assistant to the commissioner would be hired for Fiscal 2003 and 2004 to coordinate the Department of Revenue's work with the project sponsor and the affected communities.
- Travel, supplies and equipment costs would be associated with the new position and with the department's overall effort to meet with the project applicant and officials of the affected communities.
- The contractual expenses would be incurred in two areas:
  1. Oil and gas economic and tax consultants to advise the department in negotiating with the project applicant and structuring a contract for payment in lieu of taxes that is both advantageous to the project and provides for a fair return to the state on the publicly owned resource.
  2. Additional consultants to help the department prepare socioeconomic impact studies on the affected communities, to be used in determining the financial needs of the communities and negotiating with the project applicant.

The cost of the new position, travel, contractual and supplies is requested from the general fund. That total is $116,000 in Fiscal 2003 and $110,000 in Fiscal 2004.

The cost of the independent consultants allowed under AS 43.82.240 to assist in the department's evaluation of the project application and in developing terms of the contract could be reimbursed by the applicant. The statute allows the commissioner to condition the contract on agreement by the applicant to reimburse the state for the expenses of the independent contractors. Those funds are requested as authority to receive and expend statutorily designated program receipts. Those costs are $250,000 each in Fiscal 2003 and Fiscal 2004.

HB 519
Department of Revenue

PROPERTY TAX WAIVER

Although the Stranded Gas Development Act calls for the commissioner to negotiate a contract for payments in lieu of taxes, including property taxes, Sections 4 and 5 of this legislation waive all state and municipal property taxes on the project during construction and the first two full years of project operation. This would be imposed upon the municipalities, which would not have any option in accepting or rejecting the property tax waiver.

The Department of Revenue believes it is premature to waive an estimated $500 million in state and municipal property taxes without first determining if the tax relief would in fact be needed to make the project economical.

The Stranded Gas Act allows tax relief or deferral, but the explicit mandate of the Stranded Gas Act was to tailor the state's fiscal terms to the particular economics of the project and to maximize the benefit to the people of the state from the development. For example, the Stranded Gas Act enables the state to give tax relief where needed to make the project economic, but then recoup its foregone revenue — or more — when the project economics improved.

Under this bill, however, the state would get nothing in exchange for property tax relief. What happens if the price of gas goes up to $5 or more per mcf? The project developers would profit enormously from the upside, and the state would lose out on sharing in that additional profit potential as "repayment" for any tax relief granted early in the development. Yes, the legislature could then raise taxes, but this is not the fiscal certainty that the state and potential project sponsors seek from this legislation.

The department strongly recommends a change in the property tax waiver provision of this legislation to (1) include an opportunity for the state to share in the potential benefits from a highly profitable project as part of the package for any tax relief, (2) provide an opportunity for the affected communities to participate in the tax relief discussions, and (3) a needs test for the tax relief.

HB 519
Department of Revenue

DECREASE IN STATE and MUNICIPAL REVENUES

Under Sections 4 and 5 of this legislation:

- The state would lose an estimated $212 million in property tax revenues during construction and through the second full year of project operation.
- The Fairbanks North Star Borough and North Slope Borough would lose an estimated $302 million in property tax revenues during construction and through the second year of production.
- Although the state and the municipalities would never receive this property tax revenue if the project is not built, there is no opportunity to determine whether the tax relief provided by this bill is needed to make the project economic.
- This bill does not provide a mechanism to provide funding to affected municipalities that experience additional costs because of the impact of the project on the community.
- The above estimates are based on a natural gas project carrying North Slope gas to Alberta, for distribution to markets in the Lower 48 states. The estimate of lost revenues would be different and would include additional municipalities if the project was an LNG line to tidewater at Valdez or Cook Inlet.
- The affected municipalities would face higher expenses during the influx of construction workers and the resulting demand for increased school, police, road and various other public services. Meeting those demands without the ability to tax the project itself would put a severe strain on local resources.
- One option for localities would be raise property taxes on all other property within their jurisdiction. The state's share of property taxes on the Trans-Alaska Oil Pipeline and other oil and gas facilities already in place is reduced dollar for dollar by property taxes paid to local communities. Therefore increased municipal property taxes in the affected municipalities would reduce the state's oil and gas property tax receipts.

Section 7 of this legislation would exempt the natural gas project from municipal sales and use taxes. The department is unable to estimate the fiscal impact of this provision on municipalities.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB 519
() Publish Date:

Revision Date/Time (Note if correction):
Title: Natural Gas Pipeline: Special Provisions
Sponsor: House Rules Committee
Requester: House Oil and Gas

Dept. Affected: Natural Resources
BRU: Oil and Gas Developmen
Component: Oil and Gas Developmen
Component Number: 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	*See Note on Page 2:*					
Travel	40.0	40.0				
Contractual	125.0	125.0				
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	165.0	165.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )			*See Below			

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	40.0	40.0				
1005 GF/Program Receipts						
1037 GF/Mental Health						
1108 Stat. Des. Prog. Receipts	125.0	125.0				
TOTAL	165.0	165.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: none

Check this box (X) if funding for this bill is included in the Governor's FY2003 budget proposal: [ ]

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

This bill, in reviving the Alaska Stranded Gas Development Act, allows the state, with the concurrence of its North Slope oil and gas lessees, to: (1) establish a valuation methodology for the state's royalty share of gas production, and (2) modify existing requirements regarding the timing and notice of the state's right to take royalty in-kind or in-value.

Continued on next page.

Prepared by: Bonnie Robson — Phone 269-8800
Division: Oil and Gas — Date/Time 18-Apr-02
Approved by: Pat Pourchot — Date 18-Apr-02
Agency: Natural Resources

(Rev 9/2001 OMB)

ANALYSIS: (continued)

* HB 519, by extending the Stranded Gas Act, authorizes negotiations to "establish" a valuation method for the state's royalty share of gas production from an approved qualified project. Actually, a valuation methodology already exists in the state's oil and gas leases. Generally, that methodology requires the payment of royalties on the highest of: (1) the market value of the gas; (2) the lessee's actual proceeds from the sale of its own gas; or (3) an average of the actual proceeds of other proximate lessees from the sale of their own gas. Consequently, any valuation methodology agreed to through negotiations conducted under HB 519 may result in the collection of lower royalties than would be available under the existing valuation methodology. In fact, every $0.01/mcf difference in royalties due under alternative valuation methodologies results in a $36.5 million impact on the state treasury over 20 years for a 4 bcfd pipeline, and a $54.7 million impact for a 6 bcfd pipeline. However, it is impossible to determine at this time whether a new valuation methodology would be agreed to under HB 519 and, if so, whether and to what extent it would reduce royalty payments to the state.

DNR estimates that HB 519, if passed, would require at least $330,000 in expenditures to address any application to "establish" a royalty valuation method, $250,000 of which would be reimbursed over a 2-year period by the applicant for change in methodology. DNR will need to obtain access to and review extensive documentation pertaining to the economics of any proposal, then engage in complex negotiations with multiple sophisticated oil and gas corporations. This effort will require diversion of existing and proposed staff from their currently assigned duties, the retention of one or more experts, and travel. Currently, we anticipate that much of the work envisioned by this bill would fall on the Division's Petroleum Investments Manager, Petroleum Market Analyst, and a Commercial Analyst, as well as an additional Pipeline Commercial Analyst, requested in the FY03 budget. One or more experts would need to be retained to assure that royalty relief is not inadvertently or imprudently given, though the cost of that expert or those experts is to be borne by the applicant. Finally, significant sums would be needed for travel and document reproduction and indexing expenses.

The cost of the independent consultants allowed under AS 43.82.240 to assist in the evaluation of a request to change the royalty valuation methodology could be reimbursed by the applicant. The statute allows the state to condition any contract on agreement by the applicant to reimburse the state for the expenses of the independent contractors. Those funds are requested as authority to receive and expend statutorily designated program receipts. Those costs are $125,000 each in Fiscal 2003 and Fiscal 2004.

NOTE:
The estimated costs are split into two years for purposes of this fiscal note, however it is difficult to determine how much would actually be required in each year. The solution is to fund the full amount ($330,000) as a single appropriation with a two-year lapse date.

Adopted

22-LS1651\R.2
Chenoweth
4/25/02

AMENDMENT 1

OFFERED IN THE HOUSE BY REPRESENTATIVE DAVIES

TO: CSHB 519(FIN), Draft Version "R"

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

Insert "**providing, through the Department of Community and Economic Development, emergency financial assistance for municipalities affected by natural gas development;**"

Page 10, following line 2:

Insert a new bill section to read:

"* **Sec. 10.** AS 44.33 is amended by adding a new section to read:

Article 5A. Natural Gas Pipeline Impact Assistance.

Sec. 44.33.440. Natural gas pipeline impact assistance. (a) It is the intention of the legislature to provide temporary emergency financial assistance to municipalities for the purpose of meeting certain extraordinary operating and capital improvement expenditures necessitated by population growth resulting from natural gas pipeline development construction. It is the further intention of the legislature that the state respond promptly to the needs of municipalities that are related to the effect of natural gas pipeline development.

(b) Subject to legislative appropriations for the purpose, the department may make grants to a municipality that is affected by natural gas pipeline development, demonstrating extraordinary municipal and educational operating expenditures that are beyond its reasonable capability to meet from growth in receipts from current municipal revenue sources. Grants made under this subsection may be expended only for municipal and educational operating services.

(c) Grants made under this section may not be used directly or indirectly to reduce current municipal tax rates.

L

(d) Where the impact of rapid, sudden population growth threatens to develop open space land that otherwise would remain free of urban development, the department may make grants to a municipality affected by natural gas pipeline development, contributing an equal amount for the acquisition or improvement of open space or greenbelt lands, recreation facilities, parks, or wildlife refuges. A grant under this subsection may exceed $500,000. A grant made under this subsection may not be used directly or indirectly to reduce current municipal tax rates or to retire existing bonded indebtedness.

(e) Grants under this section may be made only upon application by the municipality to the department. Each grant application must state the intended use for which the grant will be expended.

(f) A municipality receiving grants under this section shall

(1) maintain a separate account for the grants received under this section;

(2) provide for an annual independent audit of the separate account for grants received under this section; and

(3) submit a copy of the independent audit report to the department.

(g) The department may adopt regulations necessary to carry out the purpose of this section.

(h) In this section,

(1) "department" means the Department of Community and Economic Development;

(2) "municipality" means a home rule or general law city or borough, including but not limited to a unified municipality;

(3) "operating expenditures" means personal services, contractual services, travel, commodities, and up to $20,000 for each item of equipment, except that the term does not include any of these items if the item is part of a capital improvement expenditure; relocatable classrooms necessary for expanded school enrollment are not subject to the $20,000 limitation."

Renumber the following bill sections accordingly.

Page 10, line 6, following "3 - 7":

Insert "and 10"

Page 10, line 7:

Delete "sec. 11"

Insert "sec. 12"

Adopted

22-LS1651\W.1
Chenoweth
4/26/02

AMENDMENT 2

OFFERED IN THE HOUSE BY REPRESENTATIVE MULDER

TO: CSHB 519(FIN), Draft Version "W"

Page 6, line 22:

Delete "a new subsection"

Insert "new subsections"

Page 7, following line 2:

Insert a new subsection to read:

"(c) Before issuing bonds to provide the financing described in AS 42.40.250(31), whether for a facility to be owned by the corporation or for a facility to be owned as described in (b) of this section, the corporation shall obtain the prior approval of the governor."

22-LS1651\R.4
Chenoweth
4/25/02

Adopted

AMENDMENT 3

OFFERED IN THE HOUSE BY REPRESENTATIVE DAVIES

TO: CSHB 591(FIN), Draft Version "R"

Page 7, line 19, following "facilities":

Insert "; and

(9) requires that its agents and contractors, the agents and contractors of a person acting under contract, or the agents and contractors of a project sponsor, negotiate to obtain "where possible" a project labor agreement for the employment of laborers and mechanics for the construction, operation, and maintenance of the project"

L

4/29/02
rescinded
6-5

Adopted 4/26/02

AMENDMENT ~~1~~ 4 Amended pg 2

OFFERED IN THE HOUE
TO: CSHB519 (FIN) Version "W"

Page 1, line 6
Delete "exempting"
Insert "deferring payment of state and municipal property taxes on"

Page 1, line 6
Delete "from state and municipal property taxes"

Page 7, line 7 through page 8. line 3
Delete all material

Renumber the following paragraphs accordingly

Page 7, line 7
Insert
"*Sec. 7 AS 43.56 is amended by adding a new section to read:

Sec. 43.56.025. Deferral of municipal tax collection. (a) The provisions of AS 43.56.035 apply to defer the collection of municipal property taxes on taxable property described in AS 43.56.035(b).

(b) The provisions of AS 43.56.035(c) apply to authorize payment by a taxpayer to and recovery by municipalities of taxes the collection of which was deferred under that section.

*Sec. 4. AS 43.56 is amended by adding a new section to read:

Sec. 43.56.035. Deferral of state tax collection. (a) Collection of the tax imposed by this chapter is deferred for an interest in taxable property that is part of an Alaska North Slope natural gas project, whether or not, under AS 43.82, the project has been determined by the commissioner of revenue to meet the requirements of AS 43.82.100, from the project's construction commencement date until the project is placed in service, but not later than December 31, 2015.

(b) The tax deferral authorized by this subsection

(1) applies only to taxable property used or committed by contract for the principal natural gas trunk line from and including the components of the principal natural gas conditioning plant at the head of that trunk line used to condition the gas by removing impurities to obtain gas of pipeline quality for pressurized treatment and gas compressor stations installed along the trunk line.

(2) Does not apply to components of the conditioning plant described in (1) of this subsection used for ancillary purposes.

as determined by the department; to secondary pipelines. gathering lines, and other facilities upstream of the conditioning plant; and to other property not described in (1) of this subsection.

(c) The taxpayer and the commissioner shall negotiate the terms of, amount of, and period for repayment or forgiveness of tax deferred under (a) of this section under AS 43.82

Page 9, lines 10-12
Delete al material

Page 9, line 13
Delete (8)
Insert (7)

Adopted 4/26/02 Amendment to Amendment #4

AMENDMENT

OFFERED IN THE HOUSE
TO: CSHB519 (FIN) "Version W"

*Sec -- . AS 43.82.210(a)(2) is amended to read:

(2) oil and gas exploration, production, and pipeline transportation property taxes under AS 43.56; **a periodic payment in lieu of the tax described in this paragraph shall include an amount that takes into consideration amounts of the tax that, after negotiation, are deferred or forgiven under AS 43.56.035(c);**

*Sec. -- . AS 43.82.210(a)(6) is amended to read:

(6) municipal property taxes under AS 29.45.010 – 29.45.250 or 29.45.550 – 29.45.600; **to the extent that taxes described in this paragraph include oil and gas exploration, production, and pipeline transportation property taxes under AS 43.56 on a qualified project that are subject to limitation of municipal levy by AS 29.45.080, a periodic payment in lieu of the tax described in this paragraph shall include an amount that takes into consideration amounts of the tax that, after negotiation, are deferred or forgiven under AS 43.56.035(c);**

W/D

AMENDMENT 5

OFFERED IN THE HOUSE

TO: CSHB 519(Fin) version "W"

Page 7, lines 21 - 22

Delete "**December 31 of the second calendar year after the calendar year in which**"

AMENDMENT 6 W18

Whitaker

OFFERED IN THE HOUSE
TO: CSHB519(FIN) Version "W"

Insert into appropriate section: (section 7 of amended version "W")

"deferral is not allowed as to taxable property used by the taxpayer
(A) that, on the effective date of this section or at any time before that date, is subject to tax under this chapter;
(B) to inject natural gas into a reservoir in the course of operations for purposes of repressuring or conservation, including enhanced recovery; or
(C) in conjunction with gas consumed for production operations for the lease or property from which it is recovered.

w/D

22-LS1651\W.2
Chenoweth
4/26/02

AMENDMENT 7

OFFERED IN THE HOUSE BY REPRESENTATIVE DAVIES

TO: CSHB 519(FIN), Draft Version "W"

Page 7, lines 17 - 24:

Delete all material and insert:

"(7) an interest in taxable property that is exclusively used as a part of an Alaska North Slope natural gas project, whether or not, under AS 43.82, the project has been determined by the commissioner of revenue to meet the requirements of AS 43.82.100, on and after the project's construction commencement date, as determined by the commissioner, until the date the project is placed in service; for purposes of this paragraph,

(A) "Alaska North Slope natural gas project" has the meaning given in AS 38.35.240;

(B) the tax exemption is not allowed as to

(i) the facilities that are used for treating and conditioning the natural gas to be transported in the pipeline portion of the project;

(ii) components of the processing plants associated with natural gas conditioning."

L

22-LS1651\W.3
Chenoweth
4/26/02

AMENDMENT 8 w/d

OFFERED IN THE HOUSE BY REPRESENTATIVE DAVIES

TO: CSHB 519(FIN), Draft Version "W"

Page 9, line 27, following "**however,**":

Insert "**for the period on and after the construction commencement date of the Alaska North Slope natural gas project described in this subparagraph, as determined by the commissioner, until the date the project is placed in service,**"

Page 10, line 5, foll wing "**however,**":

Insert "**for the period on and after the construction commencement date of the Alaska North Slope natural gas project described in this subparagraph, as determined by the commissioner, until the date the project is placed in service,**"

22-LS1651\W.4
Chenoweth
4/26/02

w/D New #9

A M E N D M E N T

OFFERED IN THE HOUSE BY REPRESENTATIVE DAVIES

TO: CSHB 519(FIN), Draft Version "W"

Page 1, line 6:

Delete "**exempting**"

Insert "**deferring payment of state and municipal property taxes on**"

Page 1, lines 6 - 7:

Delete "**from state and municipal property taxes**"

Page 3, line 29, through page 4, line 1:

Delete all material and insert:

"(12) the tax deferrals authorized by AS 43.56.025 and 43.56.035, added by secs. 7 and 8 of this Act, are for the purpose of providing relief for the period of construction and initial operation of a natural gas project;"

Page 4, line 17:

Delete "14"

Insert "13"

Page 5, lines 1, 5, and 9:

Delete "14"

Insert "13"

Page 7, line 7, through page 8, line 6:

Delete all material and insert:

"* **Sec. 7.** AS 43.56 is amended by adding a new section to read:

L

Sec. 43.56.025. Deferral of municipal tax collection. (a) The provisions of AS 43.56.035 apply to defer the collection of municipal property taxes on taxable property described in AS 43.56.035(a).

(b) The provisions of AS 43.56.035(b) apply to authorize payment by a taxpayer to and recovery by municipalities of taxes the collection of which was deferred under that section. Interest on taxes deferred under this section is due and payable at the rate set by the municipality levying the tax, not to exceed the interest rate set out in AS 29.45.250.

* Sec. 8. AS 43.56 is amended by adding a new section to read:

Sec. 43.56.035. Deferral of state tax collection. (a) Collection of the tax imposed by this chapter is deferred for an interest in taxable property that is part of an Alaska North Slope natural gas project, whether or not, under AS 43.82, the project has been determined by the commissioner of revenue to meet the requirements of AS 43.82.100, from the project's construction commencement date through December 31 of the calendar year in which the project is placed in service, but not later than December 31, 2015.

(b) In addition to tax otherwise due on taxable property under this chapter, the amount of tax on taxable property deferred under (a) of this section becomes due and payable beginning January 1 following the date the deferral provided in (a) of this section ends. Payment of the tax due under this subsection shall be made in not more than five equal annual installments, but a tax payment may be made sooner, at the taxpayer's discretion. An installment payment of the tax due under this subsection is due on the date set out in AS 43.56.150. Interest on taxes deferred under this section is due and payable at the rate set out in AS 43.05.225.

(c) For the Alaska North Slope natural gas project, the tax deferrals authorized by this section do not apply unless a taxpayer, or a person acting"

Page 9, line 14:

Delete "(e) The provisions of (d)"

Insert "(d) The provisions of (c)"

L

Page 9, following line 15:

Insert "(e) In this section, "Alaska North Slope natural gas project" has the meaning given in AS 38.35.240."

Renumber the following bill sections accordingly.

Page 12, line 17:

Delete "Sections 12 and 13"

Insert "Sections 11 and 12"

Page 12, line 17:

Delete "Sections 7 - 11"

Insert "Sections 7 - 10"

Page 12, line 19:

Delete "sec. 16"

Insert "sec. 15"

~~Amendment #3~~ 9 w/D DAVIES

Add a new section between existing section 16 and 17 to read:

Sec. _______. Repayment of Exempted Taxes. The limited exemptions from state and local taxation provided for in AS 43.56.020(a)(7), AS 43.56.020(b)(2), AS 43.56.030(2)(A) and (C) are for the purpose of providing tax relief during the period while a gas line is constructed and put into operation. Those persons who would otherwise be subject to those state and local taxes shall keep accurate records reflecting the amount of the tax that would have been payable to state and local governments during the period of construction had the exemptions not been in place. Commencing on January 1 of the year that begins after the pipeline is in service, persons who have been exempt under the above-mentioned sections shall repay the amount of the exempted taxes to the state and appropriate municipalities in not more than five equal annual payments. Payments may be made over a shorter period at the taxpayer's discretion. The deferred taxes will bear interest at the rate applicable to late-paid state or municipal taxes. Interest will run from the date the first payment is due.

In the event the taxpayer fails to keep accurate records, the Commissioner may estimate the amount of tax due to the State and various municipalities. The estimates will be presumed to be accurate and the burden shall be on the taxpayer to demonstrate by clear and convincing evidence that the amounts estimated should be corrected.

LEGAL SERVICES

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

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FAX (907) 465-2029
Mail Stop 3101

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

M E M O R A N D U M April 18, 2002

SUBJECT: House Bill 519 -- sectional analysis (22LS-1651J)

TO: Representative Hugh Fate, Vice-Chair and Acting Chair
House Special Committee on Oil and Gas

FROM: Jack Chenoweth
Assistant Revisor of Statutes

House Bill 519 amends various statutes in furtherance of the construction and operation of the Alaska North Slope natural gas project. For purposes of the bill, the project is identified, in proposed AS 38.35.240(b), added by sec. 2 of the measure, as

> [the] project [that] has the meaning given to "North Slope natural gas pipeline" in AS 38.35.120(a)(1)(B), and related facilities, constructed to follow generally a route that parallels the Trans Alaska Pipeline System and the Alaska Highway to the Canadian border to transport natural gas derived from the area of the state lying north of 64 degrees North latitude.

Bill section 1, an uncodified provision, sets out a set of findings and intent for the measure.

Bill section 2. This bill section amends AS 29.45.030(a), adding oil and gas related property to the general municipal tax exemption.[1] The exemption that is added by this

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[1] The addition of new paragraph (10) mentions "property exempted from municipal taxation under AS 43.55.017, AS 43.56.020, or [AS] 43.56.030." The texts of AS 43.56.020 and 43.56.030 are set out later in the bill. The text of AS 43.55.017 reads:

> **Relation to other taxes.** (a) Except as provided in this chapter, the taxes imposed by this chapter *[the oil and gas production taxes and associated surcharge -- generally, the "severance" tax]* are in place of all taxes now imposed by the state or any of its municipalities, and neither the state nor a municipality may impose a tax upon
>
> (1) producing oil or gas leases;
>
> (2) oil or gas produced or extracted in the state;

bill section is *not* limited to property or production associated with the Alaska North Slope natural gas project. Inclusion of this provision, I note, is not covered in the title for the bill as introduced; if the provision is retained, the bill title should be amended.

Bill section 3. This provision adds a new section to the Alaska Right-of-Way Leasing Act, AS 38.35, defining the "project" and directing state officials and agencies to take expedited action for the project "consistent with the provisions of the law administered by the official or agency, by issuing or granting necessary permits, certificates, authorizations, and similar actions required to be taken at the earliest practicable date."

AS 43.56.020(a) exempts from *local* property taxation under the 20-mill property tax certain property used in the exploration, production, and pipeline transportation of oil and gas property. **Bill section 4** extends that tax exemption to an interest in property used in the project for a period that begins on the project's construction commencement date and runs through December 31 of the second full calendar year after the project is placed in service. The exemption is conditioned upon the project's complying with the requirements of new AS 43.56.020(d), set out in bill section 6.

AS 43.56.020(b) exempts from *state* property taxation under the 20-mill property tax certain property used in the exploration, production, and pipeline transportation of oil and gas property. Like the preceding provision, **bill section 5** extends that tax exemption to an interest in property used in the project for a period from the project's construction commencement date to December 31 of the second full calendar year after the project is placed in service. The exemption is conditioned upon the project's complying with the requirements of new AS 43.56.020(d), set out in the next following bill section.

Bill section 6. This provision adds a new subsection setting out conditions under which the tax exemptions provided under the preceding two bill sections may operate. To gain the benefit of the exemptions, the taxpayer or project sponsor, or the contractor of one of them, must meet each of the six requirements identified in the subsection.

AS 43.56.030 asserts that the taxes that are levied under the 20-mill property tax of AS 43.56 are levied in place of all other ad valorem taxes on property subject to the tax and all taxes that may be levied by a municipality on property subject to the tax. As a limited exception, existing law allows a municipality to levy and collect a limited sales and use tax on sales or use of goods and services in conjunction with the taxable property

---

(3) the value of intangible drilling and exploration expenses.

(b) The taxes imposed by this chapter are in place of all taxes imposed by a municipality upon oil or gas in place or nonproducing oil or gas leases or properties.

(c) The taxes imposed by this chapter are not in place of the tax imposed by income taxes, franchise taxes, or taxes upon the retail sale of oil or gas products.

up to "the first $1,000 of each sale". The amendment set out in **bill section 7** deletes that limited exception for taxable property used or committed by contract to the project.

Taxable property subject to AS 43.56 becomes subject to the 20-mill levy on and after the "construction commencement date." The existing language defining "construction commencement date" contemplates the Trans Alaska Pipeline System project for exploration, production, and pipeline transportation of crude oil. The amendment made by **bill section 8** limits that definition as it applies to the TAPS oil pipeline and revises the definition as applicable to the natural gas pipeline project.

Bill sections 9 and 10 amend provisions of the Alaska Stranded Gas Development Act (AS 43.82).[2]

The amendment made in **bill section 9** amends the definition of "qualified project" for which the provisions of that Act may operate by adding the natural gas pipeline project.

The amendment made by **bill section 10** extends the deadline under which the Alaska Stranded Gas Development Act may operate; the deadline in existing law has already passed.

Bill section 11 declares that the amendments proposed in bill sections 9 and 10 are retroactive to the day following the deadline for applications under the Alaska Stranded Gas Development Act as set out in existing law.[3]

Bill sections 12 and 13 are effective date provisions. **Bill section 12** makes provisions applicable to taxation effective January 1, 2003. **Bill section 13** gives the remainder of the bill an immediate effective date.

JBC:pjc
02-045.pjc

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[2] The Alaska Stranded Gas Act, a 1998 enactment, authorizes the commissioner of revenue to negotiate proposed contracts with private entities for the commercialization of natural gas resources. The contracts, which require future legislation to become binding, may propose periodic payments in lieu of certain taxes and other payments, as well as other terms to induce stable fiscal policies to encourage development of natural gas resources. The Act sets out procedures under which an application may be considered. Under existing law, applications would have had to be filed by June 30, 2001, and is limited to use in development of a project "for the export of liquefied natural gas (LNG)."

[3] Inclusion of the provision is made consistent with AS 01.10.090:

> **Retrospective statutes.** No statute is retrospective unless expressly declared therein.

ALASKA STATE CHAMBER OF COMMERCE

Testimony on HB 519
by Pamela LaBolle

Good morning, I am Pam LaBolle, President of the Alaska State Chamber of Commerce. The Alaska State Chamber represents 35 local chambers and 700 businesses, most of whom are small businesses deeply concerned with the economic future of Alaska. As the Voice of Alaska Business and the leading advocate for business headquartered here in Juneau, we always appreciate the opportunity to address bills of importance to the economic development of the state. Our legislative priorities are developed at the grassroots level by our membership through a several month long process of proposal, review and debate. Our top five priorities include urging the legislature and the governor to encourage the producers to proceed with development of a southern gas line route through Alaska.

The Chamber speaks in favor of HB 519 and urges its passage. Alaska absolutely needs a gas pipeline. For our members to have their businesses thrive or even just stay viable Alaska's resources must be developed. It sometimes seem that people outside our state have a much greater say in what happens in our state than we do. With the defeat of ANWR in Congress just yesterday, there are no other large developments on the horizon that will spur the growth of our economy in the near term. Our executive committee meets monthly around the state often in smaller communities. As a result, we are very concerned about the state's economy. What is the state doing to encourage economic growth, to try to have a hand in our own destiny.

While the final results of the producers' study haven't been released yet, it should be apparent to everyone that this is a project of enormous cost and risk. The state and local governments would benefit greatly for years to come if we can encourage the producers to take the risks inherent in this huge project and develop the North Slope gas resources by building a project through Alaska. The temporary tax exemption provided by this bill should be looked upon as an investment by the state and municipalities to encourage the producers to go forward with a project that will create jobs, benefit municipalities, spur economic opportunity for businesses and start a whole new industry - a gas industry. By revitalizing the Alaska Stranded Gas Development Act and having it apply to this project, the state and producers can create a contract that will assure tax clarity and certainty and protect vital interests of the state and affected municipalities. How often does the state have an opportunity to take such a bold step to encourage large-scale economic growth. Several states and cities around our nation have offered to businesses tax incentives to encourage them to invest. The state should be less concerned with perhaps giving away too much and more concerned with not missing a significant opportunity for economic growth, perhaps the only one in the next few decades. Thank you.

WALKER WALKER AND ASSOCIATES, LLC

ATTORNEYS AT LAW

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April 23, 2002

Reply to: Anchorage

Representative John Harris
State Capital, Room 513
Juneau, AK 99801-1182

VIA FAX: 907-465-3799

Re: HB 519
Our File No: 925-219

Dear Representative Harris:

Following a review of HB 519, I spoke with Valdez City Manager, Dave Dengel regarding this proposed legislation. In discussing this with Dave Dengel, he has authorized my providing to you the attached suggested amendments to HB 519.

The City of Valdez, along with the North Slope Borough and the Fairbanks North Star Borough, worked alongside the Administration and the Legislature in negotiating portions of the Stranded Gas Act. In those negotiations and in the ultimate language adopted in Act, consideration was given to the fiscal impact on pipeline corridor communities and appropriately incorporated a mechanism for those economically impacted municipalities to receive a negotiated payment in lieu of tax to compensate for additional impact / services during construction.

We urge you to consider the hard work done by the pipeline corridor municipalities during the development of the Stranded Gas Act and incorporate those specific provisions that provide for a payment in lieu of tax and a municipal advisory group.

As you know, the City of Valdez is a member of the Alaska Gasline Port Authority. The Port Authority's economic model, prepared by Taylor De-Jongh in conjunction with Bechtel Corporation and O'Melveny and Meyers shows an economic benefit to a gasline project of $750 million / year resulting from the Port Authority's income tax exemption ruling received from the IRS. Dr. Pedro Van Muers reviewed the Port Authority's IRS ruling and estimates its benefit to be in the range of $10-20 Billion to a gasline project. (Copy of Van Muers letter attached).

Thank you in advance for your consideration of these requested amendments. We look forward to assisting you in any way we can in the commercialization of Alaska's natural gas. Should you have any questions whatsoever, please do not hesitate to contact me.

Sincerely,

WALKER WALKER AND ASSOCIATES, LLC

William M. Walker

WMW:kao

cc: Representative Jim Whitaker (via fax (907) 465-2070)
Valdez Mayor Bert Cottle
City Council Members
Dave Dengel, City Manager

AIDE MEMOIRE
MEETING WITH ALASKA GASLINE PORT AUTHORITY

March 30, 2000

Dr. Pedro van Meurs

INTRODUCTION

The consultant met on March 17 and 18 with Mr. Bill Walker of the Alaska Gasline Port Authority and their legal counsel of O'Melveny & Myers.

A document (Index N... er 103.02-01) was provided to the consultant containing an opinion of the Internal Revenue Service indicating that the Authority would not be required to file federal income tax returns or pay federal income tax on its income.

It was explained to the consultant that this opinion would typically also mean that there would be no State corporate income tax as well.

The Alaska Gasline Port Authority is contemplating being the owner of the LNG project from the lease boundary on the North Slope to the loading point FOB Valdez. This means that the tax exemption would apply to the conditioning of the gas, the pipe line transportation and the liquefaction and loading of the LNG on tankers.

The Alaska Gasline Port Authority indicated that they would not be involved in the production of the gas or the shipping by LNG tankers.

The consultant was asked to provide his views on the impact on the economics of the project based on these conditions.

VIEWS OF THE CONSULTANT

An exemption from federal and state corporate income tax would have a very beneficial impact on the rate of return of the Alaska LNG project, assuming a project structure can be realized in which the exemption would indeed apply.

The consultant carried out previously analysis for the State of Alaska on an Alaska LNG project involving a capacity of 14.5 million tons, a 30 year cashflow, a CIF price in the Far East of $ 3.50 per MMBtu and 3% escalation of costs and prices. Total project investments were estimated between $ 12 and $ 15 billion.

The previous conclusion was that the project costs need to be reduced considerably in order for the project to be economically viable. Assuming costs can be reduced, fiscal restructuring would enhance the possibilities of the project.

Based on the above total project configuration, the net benefit of the tax exemptions may range in the order of magnitude of $ 10 to $ 20 billion on an undiscounted current dollar basis.

The net tax benefit on a total project basis will depend very much on how the benefit is distributed between the producers, consumers, the Alaska Gasline Port Authority and other parties. For instance, the tax benefit would be at the lower end of the above mentioned range if this benefit would be used:

- to lower the "toll" between the lease boundary and the FOB export point and to increase in the lease boundary price, or

- to lower the CIF price to consumers in Asia in order to make the introduction of a large volume of gas feasible in the near future.

The tax exemption could strengthen the economics of the project considerably, provided the Alaska Gasline Port Authority:

1. finds a way to lower the overall costs of the project,
2. is able to create with other parties a financial and organizational configuration in which the project can proceed, and
3. is able to create conditions under which this exemption can be effectively used to the benefit of the total project.

SUGGESTED AMENDMENTS TO HB 519

The following amendments to HB 519 are intended to protect the interests of the pipeline corridor communities and the State while promoting the construction of a natural gas pipeline.

1. The Property and Sales Tax Relief to Contract Under Stranded Gas Act

As currently drafted, HB 519 exempts the pipeline and pipeline-related facilities from property and sales tax during the period of construction and for the first two years after pipeline start up. It further provides that the administration can attempt to recapture these taxes through an agreement reached pursuant to the terms of the Stranded Gas Act. However, the value of the tax exemption - estimated by the Department of Revenue at $500,000,000 to $750,000,000 - is sufficiently large that there may never be an application filed under the Stranded Gas Act if the potential "cost" of that application is an obligation to payback up to $750,000,000. To assure that the State retains its right to simply defer rather than forego property and sales taxes, tax relief for the period of construction and immediately after pipeline startup should be conditioned upon the filing of an application under the Stranded Gas Act, which application in fact results in an agreement between the applicant and the administration, approved by the legislature. Absent application, contract, and legislative approval, no tax benefits should be available.

The purpose in providing for the payment in lieu of tax provision of the Stranded Gas Act was to provide some tax relief during the construction phase of a gasline project while at the same time providing a mechanism for a negotiated payment in lieu of tax (PILT) for those communities economically impacted by the construction of the gasline. This approach for a negotiated PILT is reasonable and does not shift the additional fiscal burden during a construction phase onto the local governments without a mechanism for covering those additional costs.

2. Limit Exemption from Property and Sales Tax to the Period of Pipeline Construction.

Although not yet supported by data or analysis, property and sales tax relief during the period of construction may be appropriate, as there is no income from gas sales during construction. However, even if appropriate during the non-revenue stage of the pipeline, there is not currently any justification for tax relief after pipeline startup. HB 519 should be amended to limit the exemption from property and sales taxes to the period of construction. Of course, if an applicant under the Stranded Gas Act makes a showing that additional tax relief is necessary to make an uneconomic project economic, tax relief for the first two years after pipeline startup -- or for any other period -- could be made part of a contract developed under the Stranded Gas Act and approved by the legislature at a later date.

3. Change the Application Deadline from June 2005 to December 2003

HB 519 currently allows an application under the Stranded Gas Act to be filed as late as June 30, 2005. The deadline should be moved up to December 31, 2003. Oil and gas companies, as well as pipeline companies, respond to deadlines in Alaska and throughout the world. If Alaska provides a deadline of 2005, the companies are apt to dedicate their efforts to other regions of the world in 2002, 2003 and 2004, then refocus on Alaska in 2005. With a 2003 deadline, the incentive for a gas pipeline is immediate. Of course, if a gasline cannot be advanced in the near term for other reasons, HB 519 could be extended at a later date through further legislative action.

4. Limit Property and Sales Tax Exemption to the Pipeline and Not "Related Facilities"

HB 519 currently extends the exemption from property and sales taxes to not only the pipeline, but also to "related facilities." As a practical matter, the bulk of the cost of any pipeline project will be in the pipeline itself, so deleting reference to "related facilities" does little to diminish the magnitude of the intended benefits of the legislation. However, deleting "related facilities" goes far in eliminated unintended consequences of the legislation. For example, a producer or pipeline company could argue that all of the following are facilities related to a new pipeline: every new gas well, modifications to existing wells and infrastructure, the entire development of the Pt. Thompson field, exploration in remote regions, and the construction of multipurpose facilities which will benefit both gas production as well as oil production. More specifically, the new gas treatment plan which will be built for a gas pipeline will also be used to remove and prepare CO2 for use in enhanced oil recovery. HB 519, as currently drafted, would open the door for tax benefits for facilities and portions of facilities servicing oil production. Either "related facilities" should be deleted from HB 519, or HB 519 should narrowly define "related facilities," or the Department of Revenue should be directed to adopt a regulation defining "related facilities." If none of these actions are take, there will be litigation over the scope of tax exemption provided by HB 519.

4/29/02

Alaska Producer Pipeline Update

for
[rollout audience]

April, 2002

bp ExxonMobil PHILLIPS 66

Outline of Information

- Overview and Conclusions
- Project Design and Technology
- Updated Project Feasibility
- Wrap-up

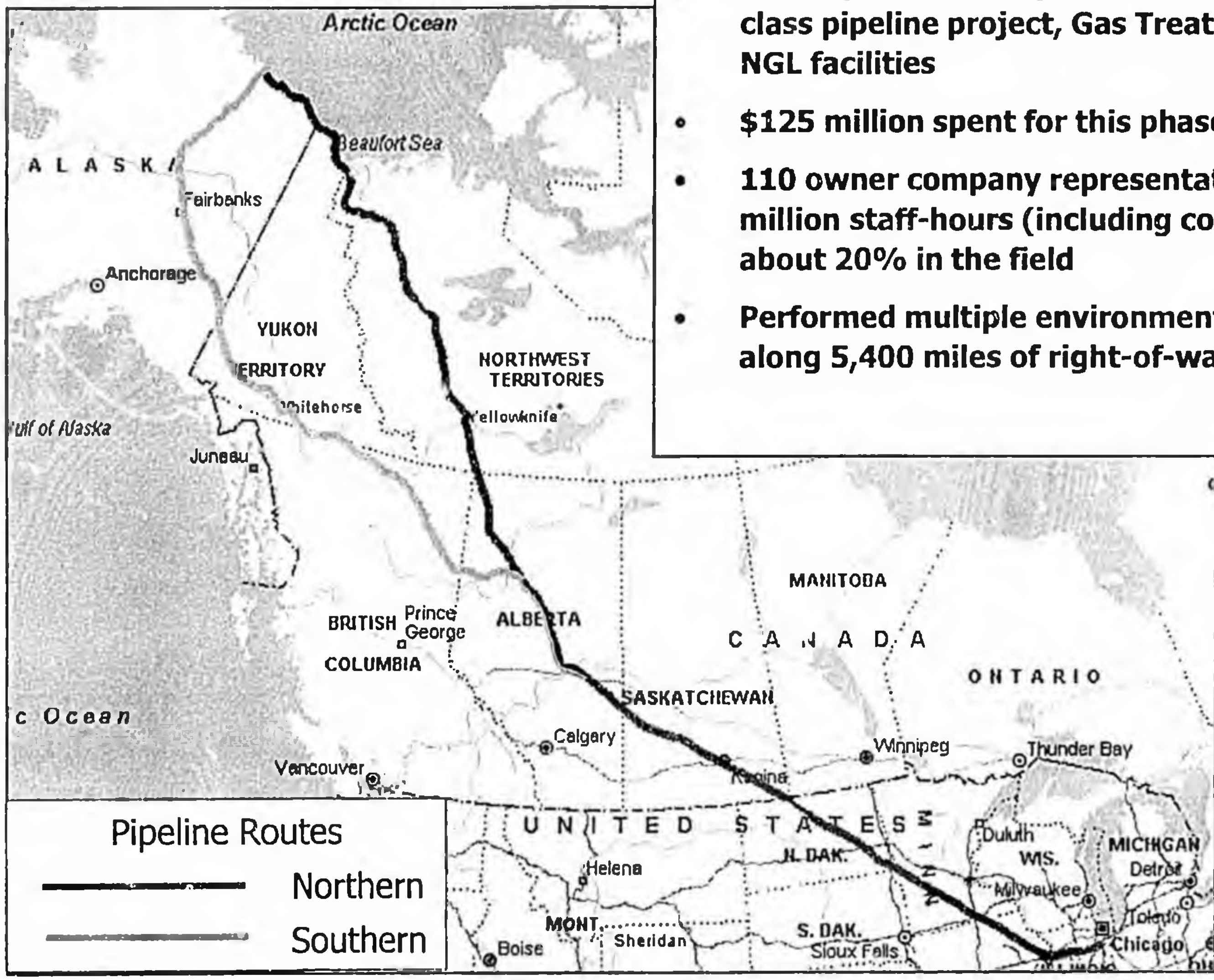
Outline of Information

- Overview and Conclusions
- Project Design and Technology
- Updated Project Feasibility
- Wrap-up

bp ExxonMobil Phillips 66

Project Overview

- **Developed feasibility cost estimates for a world class pipeline project, Gas Treatment Plant, & NGL facilities**
- **$125 million spent for this phase of the project**
- **110 owner company representatives and over 1 million staff-hours (including contractors) with about 20% in the field**
- **Performed multiple environmental field studies along 5,400 miles of right-of-way**



bp ExxonMobil

Conclusions

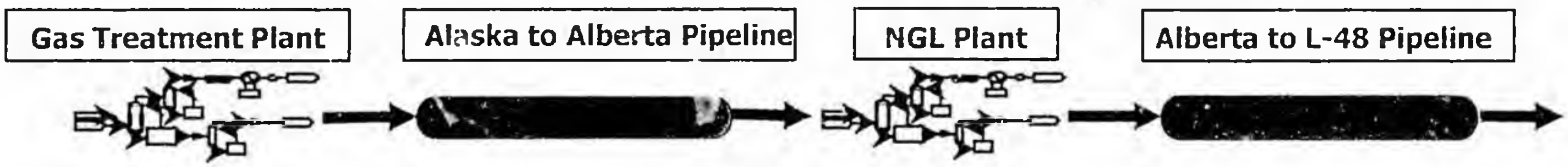
- Project currently not commercially viable
  - Risks outweigh rewards
  - Substantial additional engineering work not justified at this time
  - Future activity must match progress with governments and commercial viability

- Governments will play a key role in reducing project cost, schedule risk
  - US Federal regulatory enabling legislation
  - NEB/First Nations regulatory process clarity
  - Alaska fiscal certainty

Outiine of Information

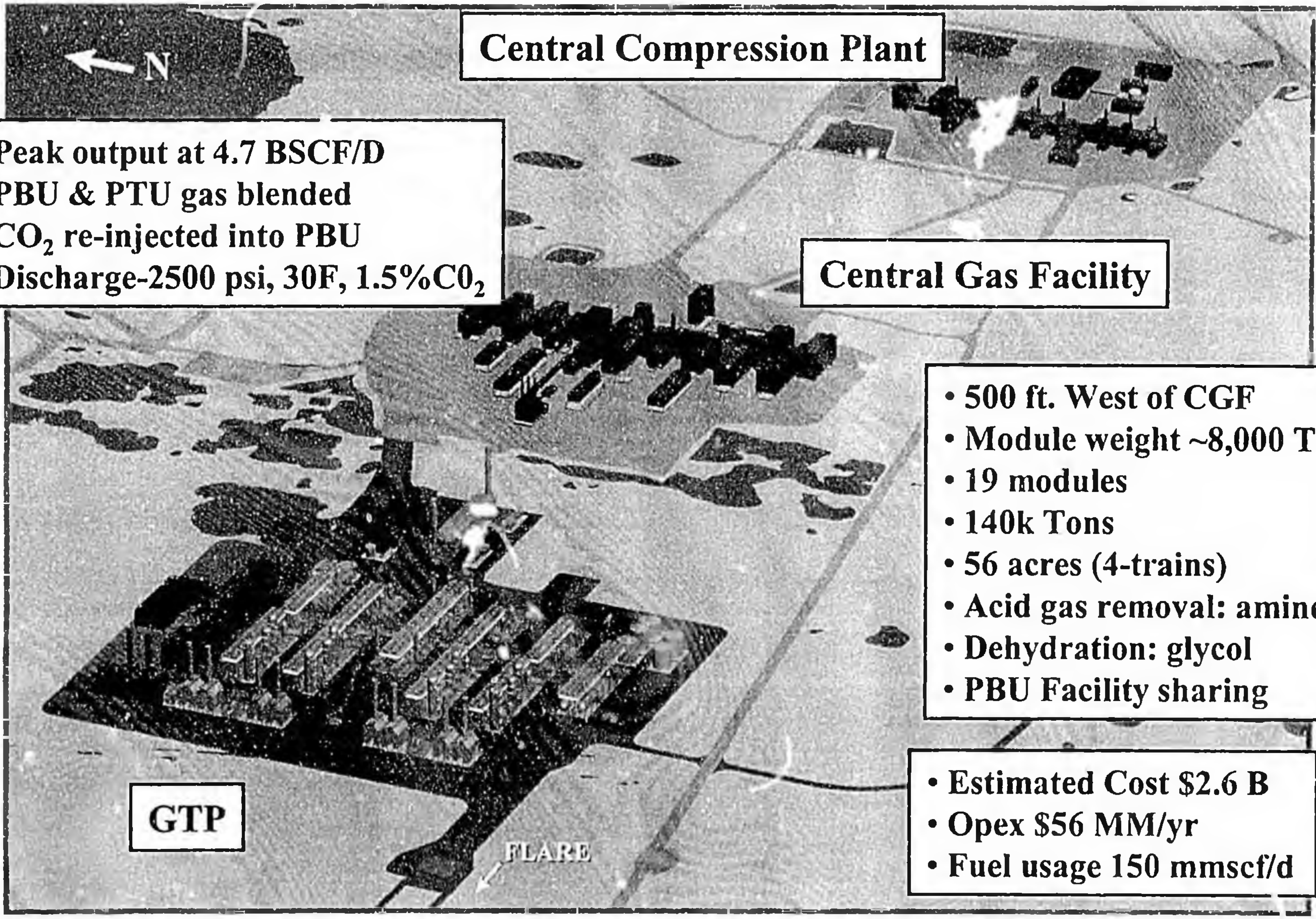
- Overview and Conclusions
- Project Design and Technology
- Updated Project Feasibility
- Wrap-up

Statistical Summary (Alaska to L-48)



- **Pipeline Design Rate** (bcfd) : **4.5**
- **Expansion Potential** (bcfd) : **5.6**
- **Compressor Stations** : **24 - 28**
- **Total Pipeline Horsepower** : **1.2 – 1.4 million**
- **Alaska to Alberta** (miles) : **1,800 - 2,100**
- **Alberta to Market** (miles) : **1,500**
- **Pipe Diameter** (inches) : **52**
- **Operating Pressure** (psi) : **2,000 – 2,500**
- **Tons of Steel** : **5 – 6 million**
- **Construction Staff-Hours** : **50 million+**

Gas Treatment Plant (GTP)



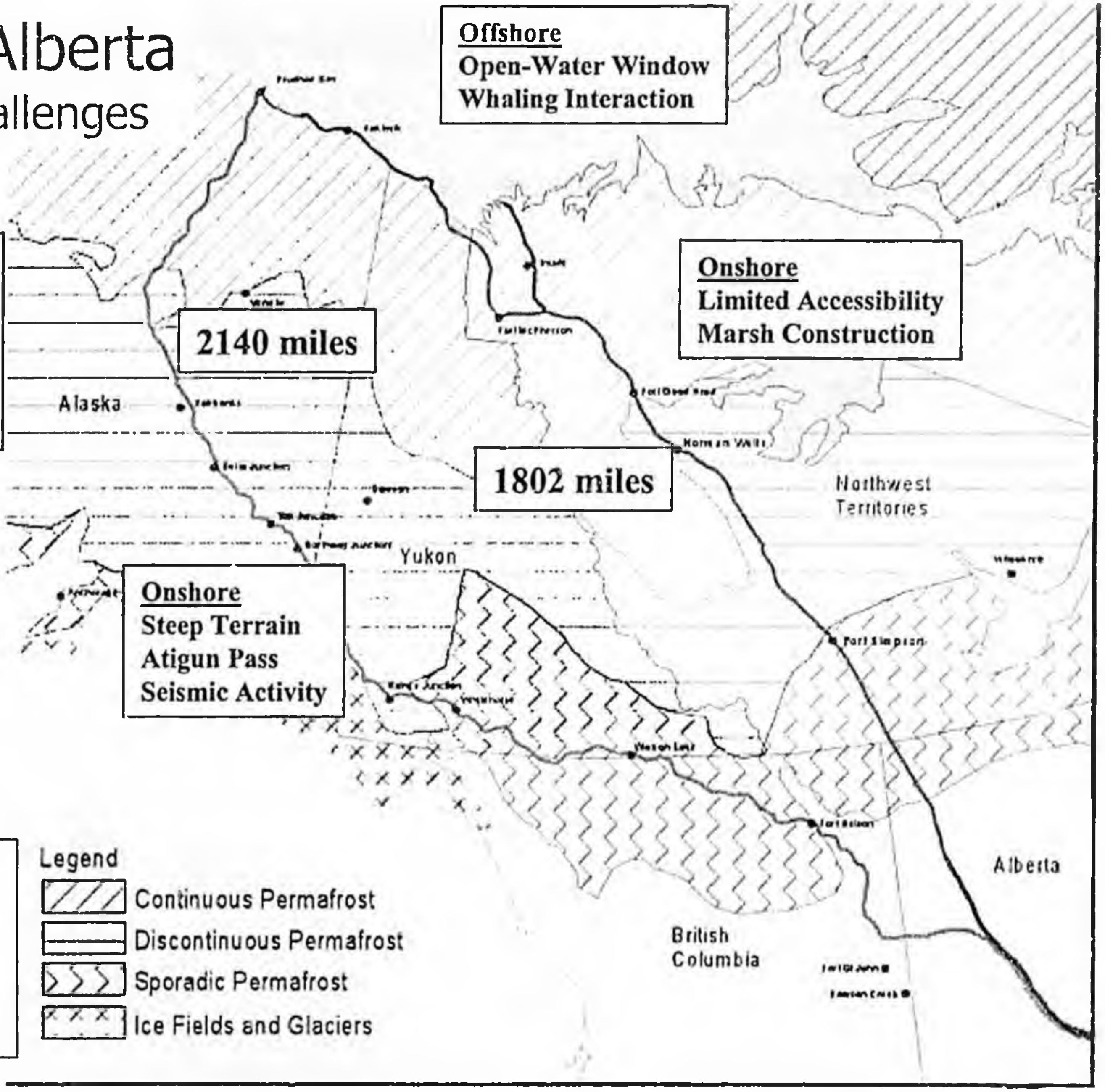
- Peak output at 4.7 BSCF/D
- PBU & PTU gas blended
- CO_2 re-injected into PBU
- Discharge-2500 psi, 30F, 1.5%$C0_2$

- 500 ft. West of CGF
- Module weight ~8,000 T
- 19 modules
- 140k Tons
- 56 acres (4-trains)
- Acid gas removal: amine
- Dehydration: glycol
- PBU Facility sharing

- Estimated Cost $2.6 B
- Opex $56 MM/yr
- Fuel usage 150 mmscf/d

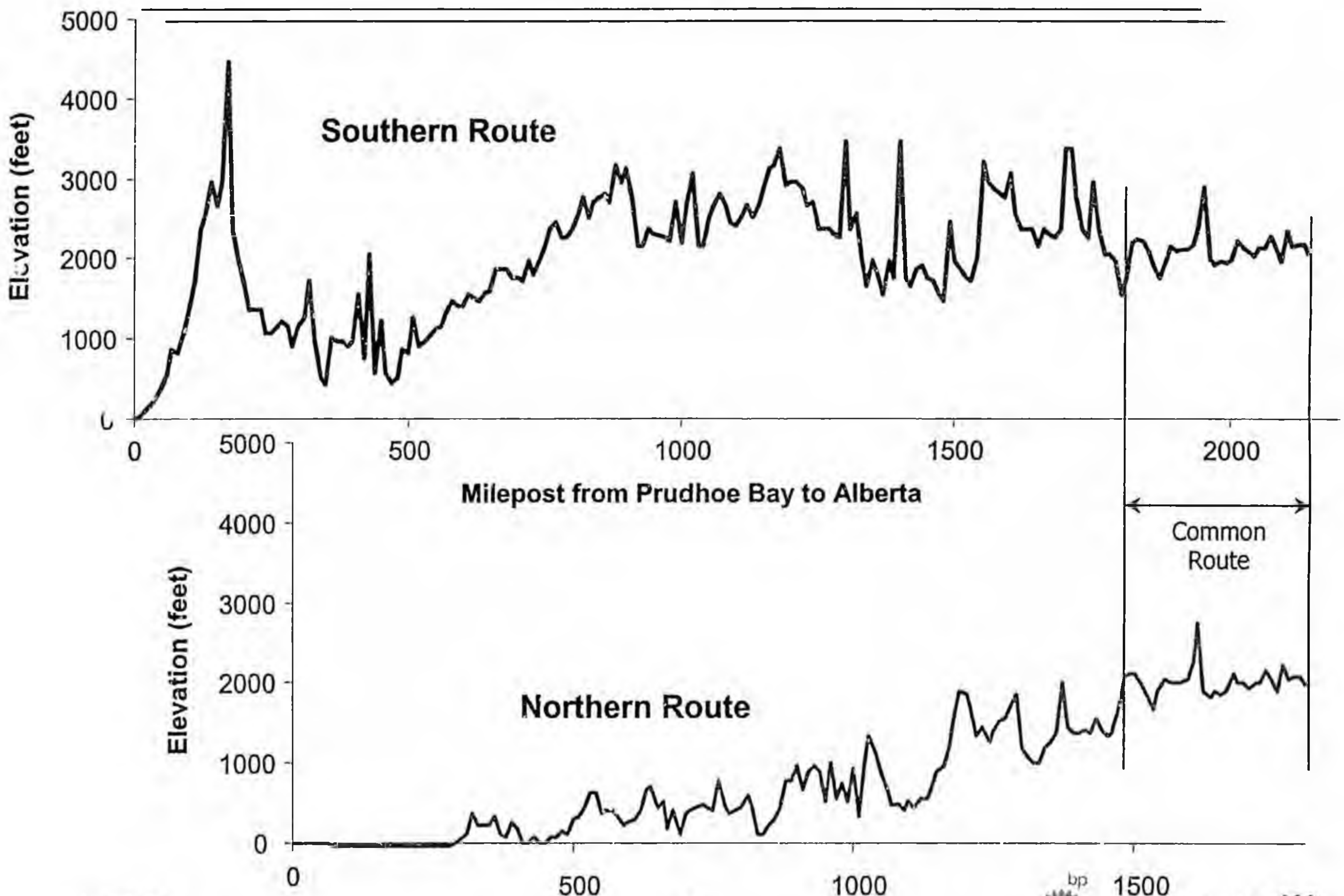
Alaska to Alberta
Technical Challenges

Common Challenges
- Permafrost
- River Crossings
- Skilled Labor
- Pipe Availability
- Logistics



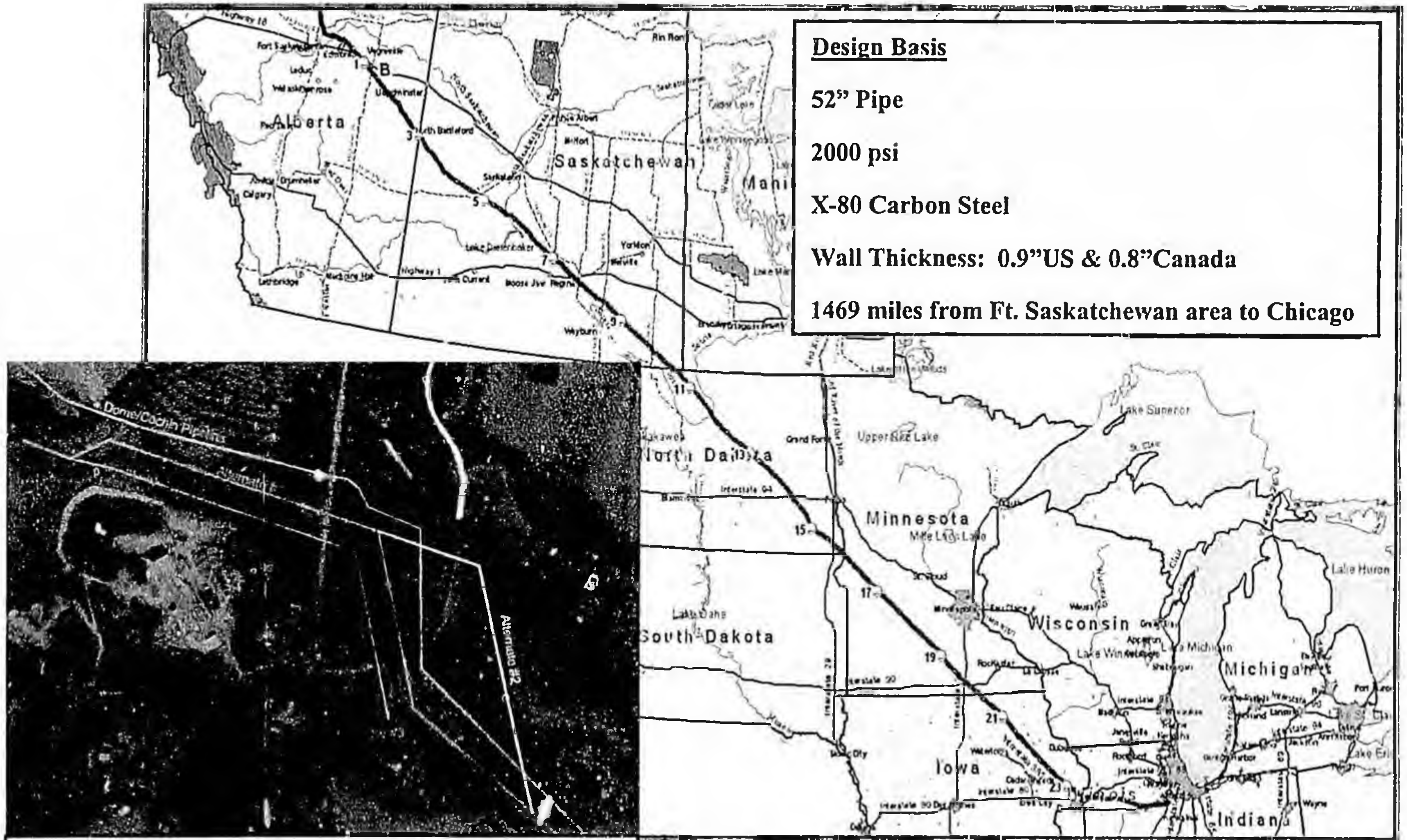
Design Basis
- 52"Pipe
- 2500 psi
- X-80 Carbon Steel
- Wall Thickness>1 inch
- Buried, Chilled Line

Route Elevation Profiles



bp ExxonMobil Phillips 66

Alberta to Market



Design Basis

52" Pipe

2000 psi

X-80 Carbon Steel

Wall Thickness: 0.9"US & 0.8"Canada

1469 miles from Ft. Saskatchewan area to Chicago

Aerial photography used for route deviation studies

bp ExxonMobil Phillips 66

Environmental Field Studies

- Crews of 2 to 5 people mapping / photographing existing conditions
- Helicopters and fixed wing aircraft used for surveys / access
- Field effort exceeded 200,000 staff hours.

- Vegetation & Soils Surveys
- Wildlife, incl Threatened and Endangered Species
- Wetlands, Fisheries, Hydrology & Water Quality
- Cultural & Archaeology Resources
- Marine Mammal Study
- Traditional Knowledge Consultation

Outline of Information

- Overview and Conclusions
- Project Design and Technology
- Updated Project Feasibility
- Wrap-up

Updated Project Feasibility

- Joint project feasibility work results in significantly improved project definition
  - Better understanding of risks and opportunities
- Updated study results indicate the following:
  - Higher capital costs
  - Increased volumes delivered
  - Lower operating costs
  - Reduced fuel consumption
  - Current capital cost estimates have accuracy to approximately +/- 20%
  - Achieving lower costs and less cost uncertainty will require substantial future investment
- Project continues to have significant risks:
  - Regulatory/political risks
  - Fiscal risks
  - Cost risk
  - Long-term prices / Market volatility

Risk predominantly borne by producers, irrespective of pipeline ownership

Capital Costs / Tolls

	Southern Route	Northern Route
Capital Cost ('01, $billion)		
Gas Treatment Plant	2.6	2.6
Alaska to Alberta	11.6	10.8
Alberta to Market	4.6	4.6
NGL Extraction Facilities	0.6	0.6
Alaska Project Share	***19.4***	***18.6***
Mackenzie Delta Share	-	*1.4*
Uncertainty	***+/- 20%***	***+/- 20%***
Sales Gas Rate (bcfd)		
Alaska	4.3	4.3
Mackenzie Delta	-	1.0
Total	4.3	5.3
Project Toll ($/mcf)		
Gas Treatment Plant	0.41	0.41
Alaska to Alberta	1.36	1.28
Alberta to Market	0.62	0.62
Toll to Market	***2.39***	***2.31***
Range	***1.90 - 2.85***	***1.85 - 2.75***

Estimated Government Take

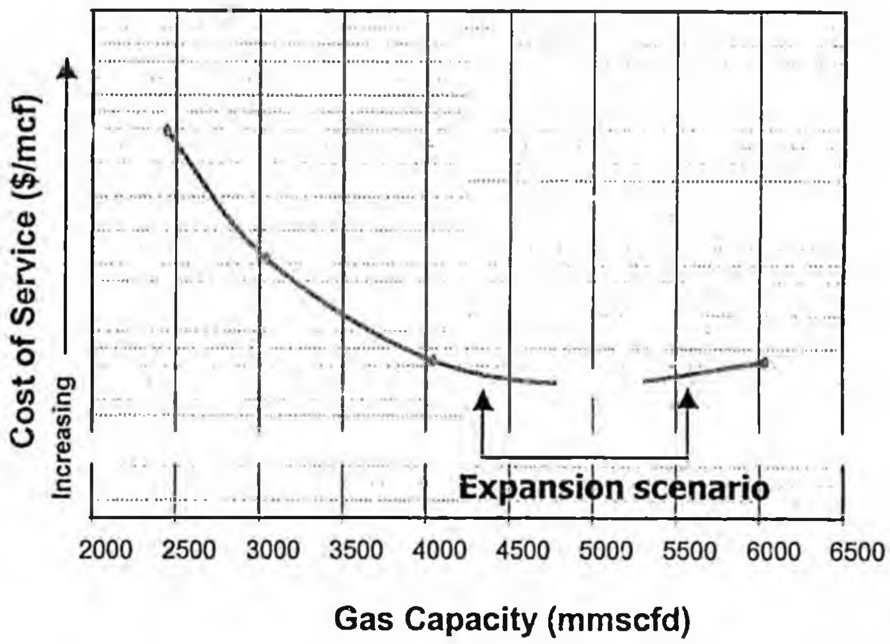
Total Undiscounted Revenue

$120 bn

- Revenues are roughly equivalent for Northern and Southern Routes
- Increased government take (vs. Sept. 2001) based on higher system throughput and longer project life
- 51 TCF AK gas reserves produced, including 16 TCF yet-to-be-discovered

Expansion

- Expandability built into system design
- System debottlenecking likely to yield small volume improvements
- Approximately 1 bcfd expansion with intermediate compression
- Cost effective expansion facilitated by large diameter pipe
- Expansion will provide access to new gas discoveries



Viable Government Framework is Essential

- Establish predictable regulatory / fiscal regime.
  - Enact US enabling regulatory legislation
  - Progress predictable fiscal framework in Alaska
  - Progress clear and predictable regulatory process in Canada
- These initiatives require support from investors, governments, First Nations, Native communities, shippers, marketers and consumers.
  - Creates best possible structure for successful Alaska pipeline
- Significant forward expenditure will require predictable government framework.
  - Significant investment required to further reduce cost and reduce cost uncertainty
  - Governments will play a key role in reducing project cost, schedule risk
  - Avoid mandates
- Once government framework is established, commercially viable pipeline project still must be identified.