

AK LEGISLATURE FINANCE COMMITTEES FILES 2007-2008 3341

223

SENATE COMMITTEE REPORT

DATE: 4/2/07

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 4/20/07

Judiciary Committee considered SENATE BILL NO. 104

SB 104 NATURAL GAS PIPELINE PROJECT

"An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

and recommends:

- be replaced with SCS or CS SB104 (SUD)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:
 Same Title
 New Title

HOUSE BILL:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
DNR	4/10	✓			6
LABOR	4/12	✓			7

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
DNR	3/1/07			✓	2
REV	2/28/07	✓			3
CEO	2/28/07			✓	4
ADM	3/2/07			✓	5

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Wiesluchowski	✓			
	McBride	✓			
	Theriault	✓			✓
CHAIR:	Frenkel	✓			

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 3/5/07

FURTHER: Judiciary
 Finance

Date of 5-Day Notice: 3/8/07
 (in accordance with Uniform Rule 23)

DATE TURNED
 IN TO OFFICE: 4/2/07

Resources Committee considered SENATE BILL NO. 104

SB 104 NATURAL GAS PIPELINE PROJECT

"An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

and recommends:

- be replaced with SCS or CS SB 104 (RES)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:	
<input checked="" type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
HOUSE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
DNR	2/28/07	✓			1
DNR	3/1/07			✓	2
REV	2/28/07	✓			3
DCED	4/28/07			✓	4
ADM	3/2/07			✓	5

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Green				✓
	STEVENS				✓
	STRAMAN				✓
	Wielechowski				✓
	Wagoner				✓
CHAIR:	Huggins				✗



Official Business

Alaska State Senate

Senate Finance Committee

Mail Stop 3100
State Capitol
Juneau, Alaska 99801-1182

corrected fax
FAX COVER SHEET

DATE: 10 May 2007 TIME: 7:45 pm

TO: Legal Services

NUMBER OF PAGES, INCLUDING COVER SHEET: 9

FROM: MINDY ROWLAND
SENATE FINANCE COMMITTEE SECRETARY
PHONE: 465-4935
FAX: 465-2187

NOTES: Final Please
CS SB 104 (FIN) 25-GS1060\T
Bullock 5/10/07
Plus 7 amendments - attached

*Thanks
Mindy*

*7:55 pm - phoned legal w typo error
for correction ~~attached~~*

CORRESPONDENCE
RECEIVED AFTER
BILL REPORTED
OUT

MAY 15 2007

**Questions Raised by Senate Finance Committee
Following Testimony Provided by David Van Tuyl on April 28, 2007**

1. Please provide the committee with workable solutions in language to fix each of the major concerns raised in response to the bill, including ways to revise .200(a) and .240(c), without compromising the State position.

BP provided a full mark-up of the bill to the Committee on May 3.

2. Explain the basis for the \$2.39/mcf toll estimate developed in 2001. Was that in money-of-the day or real terms?

The \$2.39/mcf toll estimated generated in 2002 in a money-of-the-day toll, levelized over a period of 30 years. This was based on the \$20 billion capital cost estimate, quoted in \$2001.

3. Please provide similar examples of long-term fiscal stability with governments on pipelines elsewhere, particularly in North America.

No project in North America is similar to the Alaska gas line project in terms of scale and cost by an order of magnitude. When completed, this project will be one of the greatest construction projects ever, a modern Great Wall of China. The project is more in line with resource mega-projects elsewhere in the world that have been provided long-term fiscal stability.

To address the fiscal risk associated with mega projects, "stabilization agreements" that provide "guarantees to an investor that, for a certain period of time, the statutes and regulations covering certain areas of [a country's] legal system (typically taxation, but sometimes other areas as well) will apply to the activities of said investor without including any change, amendment or substitution" are "a well known and widespread option" in foreign countries. Prado, *Fiscal Stabilization Agreements with Host Countries: What They Are and How They Work*, 51 Rocky Mtn. Min. L. Inst. 20-4 (2005) ["Prado"]. The prior administration's energy consultant was able to identify 46 countries with fiscal stability provisions. It is not just the political risk associated with a particular country that drives the need for such agreements worldwide. Rather, it is the nature of the investment itself. Once an investment has been sunk, a rational taxing authority gains leverage over the project revenues because the project is built and subject to the authority's jurisdiction. The temptation is strong to obtain a larger share of revenues from the "captive" investor. Such agreements are particularly important for projects that have a high dependence on the ability to generate substantial cash flows late in their life. These agreements "have become not only of great importance for investors contemplating whether or not to invest in a certain foreign jurisdiction, but they are also greatly appreciated protection tool for financial institutions and multilateral lending

entities, which nowadays are even more important to please than investors themselves.” *Prado*, at 20-3.

In the United States and Canada, stabilization agreements are not common place for several reasons. First, there are relatively few mega energy projects in these jurisdictions. Second, these jurisdictions have a more diversified taxing regime that is not dependent on revenues from one industry. Nevertheless, even in the United States, fiscal stability is mostly found in local jurisdictions that seek to attract development by reducing and fixing property or other taxes or providing tax credits for a specified period. An Alaska solution must be broader than a one-tax approach because the Alaska project and its investors would be subject to levy and increased rates on many different taxes.

Although two recent cross border pipeline projects, the Alliance pipeline and the Maritimes and Northeast pipeline proceeded without special fiscal stability, they are readily distinguishable from the Alaska project. As noted above, the Alaska project is: (1) many times larger, more expensive, and, hence, more risky, and (2) subject to a less diversified revenue base than that associated with the other projects.

The Alaska project is a world class project subject to world class risks. Like similar resource mega projects around the world, it will need fiscal certainty. The solution could take many forms. A separate process will be required, and BP is ready to work on a solution with the Administration and the legislature.

4. What specific circumstances could cause this project to become uneconomic?

There are a number of risks this project faces that could lead to the project not being commercially viable. Three key risks include (1) changes in the fiscal regime, (2) capital cost increases, and (3) fundamental changes in market price.

(1) Fiscal Stability Risk – The uncertainty around future taxation poses a significant risk to the economic viability of the project. Confidence in the ability of the project to generate long term stable cash flows will be an important consideration to investors. The possibility of changed fiscal terms resulting in changes in future cash flows creates uncertainty that is impossible to model with accuracy. In addition, further taxation risk exists in the possibility of the imposition of new taxes that don't exist today.

(2) Capital Cost Risk – One of the biggest risks for the project is the uncertainty around the cost to build the pipeline. This is not “just another mega-project”. This will be the largest privately-funded project in North America, crossing two countries, several provinces and states, and will require massive amounts of steel, materials, and labor. As such, it will present unprecedented challenges in project management, manufacturing, procurement, logistics, and construction. Because of the scope of the project, even relatively small over-runs can have large consequences. Large over-runs could cripple all but the largest corporations.

(3) Market Price Risk – Oil and gas companies willingly take on commodity price risk. The risk is significant, as the historic volatility and unpredictability of energy prices is likely to continue. While the North American gas market is the largest in the world, price competition from LNG and other sources is very real. Anyone who forecasts gas prices two decades into the future and suggests they can't imagine a particular outcome might reference the Economist's March 6 1999 issue. The cover story "Drowning In Oil", explained why oil prices would remain low and possibly drop to \$5/barrel. As it turned out, oil prices were starting to recover from their two-decade low in December 1998, and the Economist's projections were completely off the mark. What is certain is that future energy prices are unknowable.

Although the above three risks are very important, they are just some of the risks faced by the project. Other risks include: completion risk, delay risk, size risk, marketing risk, competition risk from LNG and other energy sources, production risk, resource risk, political risk, permitting risk, firm transportation commitment risk, financing risk, and environmental risk. Any one of these could significantly affect the project's economics.

5. Can you provide examples of BP projects where FERC certificate conditions have been revised based upon negotiation, thereby leading to certificate acceptance?

While we have not identified a BP-sponsored project where FERC certificate conditions have been revised through subsequent actions, such a process is not uncommon. BP has, however, challenged regulatory decisions in a number of areas.

A recent example of a revision to a FERC certificate occurred with Transcontinental Gas Pipeline's proposed "Market Link" expansion project from the early part of this decade went through several iterations with the FERC before reaching its final form.

Unfortunately, the sort of flexibility, which pipelines depend on in order to enable them to respond to changing market conditions, effectively is prohibited under AGIA. Under 43.90.200(a) (Senate Judiciary CS) "[a] licensee that is awarded a certificate of public convenience and necessity for the project by the Federal Energy Regulatory Commission ... shall accept the certificate when all rights of administrative appeal relating to the certificate have expired." Under AGIA as drafted, no later modification of the project is permitted.

6. Can you please describe more fully the conflict created between Section 130 (13) of AGIA and FERC Order 2005?

What FERC Order 2005 requires is that the pipeline owners provide estimated distance sensitive rates to in-state delivery points. What it does not require, but AGIA appears to require, is that pipeline owners set aside capacity for potential in-state shippers even if none sign up for capacity in an open season. The order merely requires estimated

transportation rates for all identified in-state delivery points and those estimates not include the costs for service delivery outside of Alaska.

AGIA's language, however, appears to require the AGIA licensee to offer in-state transportation service to in-state delivery points, regardless of whether any shippers bid successfully for in-state commitments in an open season. The language implies that potential capacity needs for in-state service must be set aside and included in the initial construction capacity, rather than ensuring that such service be made available only if the capacity is actually available as is provided in FERC Order 2005.

The specific language of the two relevant provisions is provided below for reference:

FERC Order 2005 - 18 C.F.R. 157.34(c)(8):
based on the In-State Study and the delivery points within the State of Alaska identified in (1) above, there must be an estimated transportation rate for such deliveries, based on the amount of in-state needs shown in the study. Such estimated transportation rate must be based on the costs to make such in-state deliveries and shall not include costs to make deliveries outside the State of Alaska;

CSSB 104 - 43.90.130(13):
commit to offer firm transportation service to delivery points in this state as part of the tariff regardless of whether any shippers bid successfully in a binding open season for firm transportation service to delivery points in this state, and commit to offer distance-sensitive rates to delivery points in this state consistent with 18 C.F.R. 157.34(c)(8);

The difference between the two provisions is significant. Under FERC Order 2005, the capacity would be constructed only if in-state shippers committed to pay for the costs. Under AGIA, it appears that the capacity would have to be constructed regardless of whether in-state shippers committed to pay for its costs. If they did not, the costs of the unsubscribed capacity would have to be shifted elsewhere, possibly even to the other shippers using the line who neither requested nor need the capacity.

7. Please provide more context on the application of rolled-in rates in Canada and how that may affect the project in whole?

The National Energy Board (NEB) in Canada does not have a policy on tolling (rolled-in, stand alone, incremental, etc.) or cross subsidization. According to Enbridge Pipeline's May 1st testimony to the House Finance Committee, the last three cross border pipelines have been constructed without the ability for the initial shippers' rates to be changed.

Ron Brintnell of Enbridge testified that the Alliance, Martimes NE and Vector pipelines were based on negotiated rates that did not provide for rolled-in rates. Mr. Brintnell said in his May 1st testimony:

"I would like to touch on the issue of rolled in rates, which you have heard that there is a presumption of in Canada and in particular the ability for existing shippers to be charged higher rates on expansions. While this true for vintage

pipeline, new cross border gas pipelines like Alliance and Vector were developed with negotiated rates. In these cases initial shippers have contracts which give them protection from upside rate escalation above what was agreed to in the contract. The NEB is supportive of pipelines and shippers reaching negotiated settlements."

When considering the appropriate tolling treatment for system expansions of older existing pipelines, the NEB has historically favored rolled-in tolls. In various decisions, the NEB has ruled in favor of rolled-in toll treatment when looking at similar projects - unless compelling reasons/circumstances to do otherwise are raised.

Although rolled-in rates have generally been the norm for expansions of older pipelines in Canada, several recent large cross-border pipeline expansions have been based upon negotiated rates.

8. Do you have any comments on the project evaluation and ranking section of AGIA?

BP provided a full mark-up of the bill to the Committee on May 3.

9. BP is a participant in the Rockies Express pipeline. How specifically are you protected in those agreements from cost overruns?

The Rockies Express pipeline's tariff provided initial shippers with the opportunity to obtain firm, fixed rates that would insulate the shippers against the potential of their negotiated rates being increased during the term of the agreement. AGIA takes away this opportunity. Additionally, the pipeline's tariff provided initial shippers with the opportunity to insulate themselves from the risks of cost overruns during the term of their agreement. No pipeline company that has expressed any interest in constructing the Alaska project has offered such a guarantee.

Shippers on Rockies Express may elect negotiated rate provisions as part of their precedent agreement. The actual negotiated rates applicable to a shipper depend on whether the shipper qualifies as Foundation, Anchor or other Standard shipper. The negotiated rates applicable to each category are set forth on Appendix A to the precedent agreement.

The negotiated rates provide for a choice between firm, fixed rates for the term of the firm transportation agreement, or rates which are subject to a one-time adjustment for actually incurred steel costs. Because Rockies Express is still in the construction phase, shippers electing firm, fixed rates at this point (regardless of the outcome of construction) are insulated from the risks of cost overruns for the term of their agreement. The availability of firm, fixed rates also insulates the shippers against the potential of their negotiated rates being increased during the term of the agreement as a result of

subsequent pipeline expansions. In that regard, while shippers agree to pay the actual levels of certain variable operating costs, the precedent agreement also contains protections from those costs increasing above certain levels as well as a result of system expansions.

Similar protections are prohibited under AGIA because AGIA undermines protections provided by negotiated rates. First, section 130(7)(B)(ii) of CSSB 104 (JUD) requires the licensee to raise "negotiated rates" to reflect any increased costs which it might incur as a result of an expansion. Moreover, although the Administration argues that any such increase would be limited to "no more than" 15%, that statement is simply wrong. As currently drafted, the section requires that the licensee retain the right to increase negotiated rates by up to "15 percent above the negotiated rate for pipeline capacity *on the date of commencement of commercial operations.*" Often, negotiated rates can decrease (or increase) over the life of the contract by significant amounts from the initial rate levels. Thus, it is easy to imagine a situation in which the initial rates would be high relative to those applicable at subsequent times during the term of the negotiated rate. In that instance, requiring that the rates under negotiated contracts be raised in the event of an expansion by 15% from the rate in effect on the date of commencement of commercial operations could result in actual later rate increases by much larger (e.g., 35% or more) amounts.

AGIA also undermines negotiated rates in a second way. As currently drafted, AGIA effectively ensures that the AGIA licensee is the only entity able to put forth a pipeline proposal. Pipeline owners are willing to negotiate rates when shippers have alternatives available. In those situations, owners of competing pipeline projects offer shippers negotiated rates to attract shippers to one proposal over others. Under AGIA, however, the AGIA coordinator will ensure that state regulations favor one proposal over another in obtaining state permits, with the result that the AGIA licensee will have an effective monopoly over the project. In that situation, AGIA licensee has little incentive to negotiate rates. As a result, it is unlikely that negotiated rates (or as favorable a set of negotiated rates as would be available in a competitive environment) will be available for shipments on an AGIA-based pipeline.

10. What is the track record for any major pipeline projects managed by the producer on the North American continent?

In North America, producers largely have been involved in areas where additional investment is required in order to provide transportation from production areas requiring new or expanded transportation options. A good example is the Alliance Pipeline, which at the time of initial FERC certification was a project owned by 17 limited partners (15 of which were producers). The 1,855 mile pipeline, which runs from British Columbia and Alberta to Chicago, was proposed and built in the late 1990's in response to capacity bottlenecks in existing transportation systems from the Western Canadian Sedimentary Basin to Midwest US markets. Subsequent to construction, the producer interests were acquired and consolidated by a financial investor and a major pipeline company.

Other examples exist in the US Deep Water Gulf of Mexico, where because the need for capacity is production driven and as a result of technological and other challenges, producers have taken the lead in developing new pipeline capacity. A good example there is BP's Mardi Gras Transportation System, a 485-mile system composed of a series of pipelines designed to bring gas and oil produced from the Deep Water to the existing shelf and onshore pipeline network. BP's Destin Pipeline also is an example of a pipeline designed to carry gas produced from the offshore to the existing onshore infrastructure.

A more recent example is the proposed Rockies Express pipeline, in which ConocoPhillips has a 25% ownership interest. Rockies Express is designed to link increased production from the Rocky Mountain region to Midwest US markets. Producers also own substantial interests in a number of major US oil pipelines throughout the Lower 48 states.

11. Was BP one of the producers who participated in the Alliance Pipeline?

No. At the time of initial FERC certification Alliance was owned by 17 limited partners (15 of which were producers), but did not include BP.



May 11, 2007

RECEIVED

MAY 15 2007

Honorable Bert K. Stedman
Chairman, Senate Finance Committee
Alaska State Legislature
Juneau, Alaska 99801-1182


Dear Senator Stedman,

Thank you for the opportunity to provide testimony before your committee last week regarding the Governor's Alaska Gasline Inducement Act. As I mentioned during my testimony, BG strongly supports this legislation and believes it will expedite the development of an Alaska gas pipeline.

During my testimony, you asked that I provide your committee with a comprehensive list of all of the interventions BG has been involved in at FERC. You also asked for BG to submit a note regarding our specific concerns relating to open access. Enclosed is a list of cases in which BG intervened before the Commission, along with a filing before FERC in case RM07-1, which addresses the open access concerns BG has regarding the Alaska gas pipeline. In this particular case, I have included a filing by Anadarko, along with BG's supporting letter.

I look forward to continue to work with the Senate and your committee on this very important issue. Should you have any questions please do not hesitate to contact me at 713 599 4009.

Sincerely,


David N. Keane

enclosures

Proceedings in which BG has participated before the FERC

Docket No.	Proceeding	Participating BG Entity
RM07-1	Rulemaking -- Standards of Conduct for Transmission Providers	BG E&P Alaska, Inc.
RP04-42-000 RP04-42-001	Southern Natural Gas Company -- Update of Gas Quality Provisions	BG LNG Services, LLC
RM06-21 RM07-4	Pacific Gas and Electric Co. and Southwest Gas Corp. -- Petition for Rulemaking to remove price cap applicable to capacity release transactions	BG Energy Merchants, LLC
ER06-1367 ER07-239	Application for market-based rate authority	BG Dighton Power, LLC BG Energy Merchants, LLC Lake Road Generating, L.P.
EG99-220	Transfer in upstream ownership from Lake Road Generating Company, L.P.	BG Dighton Power, LLC BG Energy Merchants, LLC Lake Road Generating, L.P.
ER07-546 ER07-547	ISO New England, Inc. -- Revisions to market rules implementing Forward Capacity Market Settlement Agreement	BG Dighton Power, LLC BG Energy Merchants, LLC Lake Road Generating, L.P.
ER07-397	ISO-NE and NEPOOL Participants Committee -- Amendment of Schedule 2 of ISO-NE Open Access Transmission Tariff	BG Dighton Power, LLC BG Energy Merchants, LLC Lake Road Generating, L.P.
RP07-149	Gulf South -- Tariff filing to modify gas quality specifications	BG Energy Merchants, LLC
EC07-50	Joint application for authorization of disposition of jurisdictional facilities pursuant to FPA 203	BG North America, LLC Lake Road Generating, L.P.

RP01-503-007	Natural Gas Pipeline Co. of America -- Tariff filing on Commission's gas interchangeability	BG LNG Services, LLC
ER07-2	Order instituting inquiries regarding possible revision of scheduling and compensation mechanisms for gas-fired generators	BG Dighton Power, LLC
EL07-1 EL07-2 EL07-3 EL07-5	Order instituting inquiries regarding possible revision of scheduling and compensation mechanisms for gas-fired generators	BG Energy Merchants, LLC
CP06-474	Southern Natural Gas Co. -- Application to authorize abandonment by sale of existing facilities from Elba Express Co. (EEC) and to acquire facilities to be constructed by EEC	BG LNG Services, LLC
CP06-471 CP06-472 CP06-473	Elba Express Co. LLC -- Motion to construct and operate natural gas facilities, and to acquire facilities to be abandoned by Southern Natural Gas Co.	BG LNG Services, LLC
CP06--470	Southern Natural Gas Co. -- Application to authorize abandonment by sale of existing facilities from Elba Express Co. (EEC) and to acquire facilities to be constructed by EEC	BG LNG Services, LLC
EC06-153	Application for approval under FPA 203	BG Dighton Power, LLC
Ec06-73	Self-certification of status as exempt wholesale generator	BG Dighton Power, LLC
RP04-249	Florida Gas Transmission (FGT) -- gas quality and interchangeability standards	BG LNG Services, LLC
CP06-102	Trunkline LNG -- Application to construct/operate Ambient Air Vaporization and natural gas liquids processing facilities	BG LNG Services, LLC

RM03-10	Rulemaking Amendments to Blanket Sales Certificates	BG Energy Merchants, LLC
CP06-1	FGT -- Application for Phase VII expansion of facilities	BG LNG Services, LLC
CP04-223 CP04-293 CP04-358	KeySpan LNG, L.P. -- Application to convert storage facility into LNG terminal	BG LNG Services, LLC
CP05-388	Southern Natural Gas Co. -- Filing on gas quality and interchangeability standards	BG LNG Services, LLC
RP05-491	Trunkline -- Tariff filing with increase in currently effective fuel reimbursement percentage and increase in electric power cost adjustment	BG LNG Services, LLC
RP01-229-002	Trunkline -- Tariff with negotiated rate agreement	BG LNG Services, LLC
CP02-60-006	Trunkline -- Tariff with negotiated rate agreement	BG LNG Services, LLC
CP05-357 CP05-358 CP05-359 CP05-360	Creole Trail LNG, L.P. -- Application to construct/operate LNG import terminal; Cheniere Creole Trail -- Application for related pipeline	BG LNG Services, LLC
CP05-130 CP05-131 CP05-132	Dominion Cove Point LNG -- Application to expand LNG terminal; Dominion Transmission, Inc. -- Application to expand related pipeline	BG LNG Services, LLC
CP02-378	Cameron LNG, LLC -- Application to modify proposed LNG terminal's berthing facilities	BG LNG Services, LLC
RP05-168	Southern LNG -- Rate filing reflecting decrease in demand	BG LNG Services, LLC

	surcharge for maintenance costs of the turning basin	
RP04-326	Marathon LNG Marketing -- Petition for Declaratory Order to end controversy over "buy/sell" arrangements in the LNG sales contract with BG	BG LNG Services, LLC
RP04-523	Southern LNG -- Revisions to GT&C	BG LNG Services, LLC
CP04-358	Algonquin Gas Transmission (AGT) -- Application to construct and operate pipeline and facilities to connect to proposed KeySpan LNG facility and to establish rates	BG LNG Services, LLC
RP04-263	AGT -- Tariff filing to reflect three firm transportation service agreements with negotiated rates with USGen New England, and one interruptible service agreement with discounted and negotiated rates	BG LNG Services, LLC
CP04-64	Trunkline -- Application to construct/operate natural gas transmission facilities	BG LNG Services, LLC
RP04-117	Trunkline -- Tariff filing to provide that on transactions where no compression is required to make deliveries (consuming no gas as compressor fuel), no fuel usage component of the fuel reimbursement percentage will be required	BG LNG Services, LLC
CP04-4 CP04-5 CP04-6	Lake Charles Express LLC -- Application to construct/operate pipeline and related facilities, and interconnection with Trunkline	BG LNG Services, LLC
RP03-484 RP01-208	BP America, ExxonMobil & Power Marketing and Shell Offshore -- Complaint alleging harm resulting from lack of objective and nondiscriminatory gas quality standards in Southern LNG Tariff	BG LNG Services, LLC

CP02-374 CP02-378 CP02-377 CP02-378	Hackberry LNG Terminal -- Application to construct/operate LNG terminal and provide open access LNG tanker services to shippers importing LNG (name later changed to Cameron LNG after acquisition); comments for Draft Environmental Impact Statement	BG LNG Services, LLC
CP03-75	Freeport LNG Development -- Application to construct/operate LNG receiving terminal	BG LNG Services, LLC
CP02-60	Trunkline -- Application to construct/operate additional facilities at LNG terminal in Calcasieu Parish, Louisiana	BG LNG Services, LLC
RP02-379	CMS Trunkline -- Revised tariff to increase currently effective fuel reimbursement percentage and increase in electric power cost adjustment	BG LNG Services, LLC
CP02-379 CP02-380	Southern LNG -- Application to expand Elba Island LNG import terminal	BG LNG Train 3 Ltd.
RP02-129	Southern LNG -- Revised tariff to reflect a rate increase under Section 4 NGA	BG LNG Train 3 Ltd.
CP02-60-004	Trunkline -- Application to amend authority in LNG terminal expansion project	BG LNG Services, LLC
CP02-57 CP02-58 CP02-59	SCG Pipeline LNG -- Application to construct, install and operate natural gas pipeline facilities; a request for a blanket certificate authorizing transportation of gas for others; a request for a blanket certificate authorizing certain facility construction and operation	BG LNG Train 3 Ltd.
CP02-56	Southern LNG -- Application for approval to abandon an undivided interest in the capacity of two parallel pipelines, by sale, to SCG Pipeline, Inc.	BG LNG Train 3 Ltd.

CP02-55	CMS Trunkline -- Application to increase maximum capacity of its LNG metering facilities at Calcasieu Parish, LA; requested approval to operate its pipeline system downstream of same	BG LNG Services, LLC
CP99-579	Southern LNG -- Update of rates for Elba Island LNG Terminal	BG LNG Services, LLC
CP99-579-001 CP99-580-003 CP99-581-001 CP99-582-004	Southern LNG -- Tariff filing; update of initial rates of service consistent with FERC orders	BG LNG Train 3 Ltd.
RP01-445 RP01-445-001	Trunkline -- Stipulation and Agreement	BG LNG Services, LLC
CP01-76 CP01-77 RP01-217	Cove Point LNG -- Application to construct/operate facilities and reactivate existing facilities for LNG import; application for authority for siting, construction, and modification of import facilities	BG LNG Services, LLC

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Standards of Conduct for
Transmission Providers

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Docket No. RM07-1-000

REPLY COMMENTS OF
ANADARKO PETROLEUM CORPORATION

INTRODUCTION

On January 18, 2007, the Federal Energy Regulatory Commission ("FERC" or "Commission") issued a Notice of Proposed Rulemaking proposing revisions to the Standards of Conduct for transmission providers ("Standards of Conduct NOPR").¹ On March 30, 2007, the State of Alaska submitted timely Comments on the proposed rule, directed solely at the relationship between this rulemaking proceeding and federal regulation of an Alaska natural gas transportation project. Anadarko Petroleum Corporation ("Anadarko"), an oil and gas exploration company with significant gas-prone acreage in the State of Alaska, hereby submits Reply Comments supporting the Comments filed by the State of Alaska.

Anadarko joins the State of Alaska in its request that the Commission (1) make it clear that the Standards of Conduct for an Alaska natural gas transportation project apply to the relationship between the project sponsor's and the ultimate pipeline's relationship with *both* its "Marketing Affiliates" and "Energy Affiliates", and (2) confirm that the requirements of Order Nos. 2005 and 2005-A, relating to the conduct of open seasons for an Alaska natural gas

¹ *Standards of Conduct for Transmission Providers*, Notice of Proposed Rulemaking, 118 FERC ¶ 61,031 (2007).

transportation project,² remain unaltered by this Commission's actions on remand of *National Fuel Gas Supply Corp. v. FERC*, 468 F.3d 831 (D. C. Cir. 2006) ("*National Fuel*").

BACKGROUND

1. Competitive Concerns Affecting The Alaska Natural Gas Pipeline

In Order Nos. 2005 and 2005-A, the Commission promulgated its first rules relating specifically to an Alaska natural gas transportation project. The rules were promulgated to satisfy a Congressional directive in the Alaska Natural Gas Pipeline Act, 15 U.S.C. § 720, *et seq.* ("ANGPA") that the Commission promulgate specific rules formalizing for an Alaska pipeline the Commission's policy that all new pipeline construction be preceded by a non-discriminatory "open season." The open season is the process through which potential shippers bid on capacity on the pipeline, as designed by the project sponsor. It culminates in a final project design and the execution of precedent agreements between the project sponsor and the prospective shippers for some or all of the design capacity of the project.

In enacting the ANGPA Congress was cognizant of the fact that virtually all of the natural gas that would be available for commitment to an Alaska pipeline in the initial open season would be the Prudhoe Bay/Point Thomson reserves, identified as a result of the development of the Prudhoe Bay/Point Thomson oil and gas fields. Over 90% of these reserves are owned by three producers – ExxonMobil Corporation, ConocoPhillips Company, and BP Exploration (Alaska) Inc. ("North Slope Producers") – the self-declared Alaska pipeline project sponsors. Therefore, to ensure that potential competitors of the North Slope Producers will have access to the pipeline, and, thereby, be positioned to move forward in their exploration programs, Congress required that the Commission's open season regulations "promote competition in the

² *Regulations Governing the Conduct of Open Seasons for Alaska Natural Gas Transportation Projects*, Order No. 2005, 110 FERC ¶ 61,095 (2005), *order on reh'g*, Order No. 2005-A, 111 FERC ¶ 61,332 (2005).

exploration, development, and production of Alaska natural gas" and, as to open seasons for capacity exceeding the initial capacity, that the regulations provide the opportunity for gas other than that from Prudhoe Bay and Point Thomson to be transported through the pipeline.

To develop the rules, the Commission compiled a substantial record, receiving both written comments and oral testimony from many parties, including the State of Alaska, certain Alaskan elected officials, Alaskan Natives, representatives of potential project sponsors – both the North Slope Producers and independent pipeline companies, potential shippers – including the North Slope Producers and explorers, representatives of state and federal agencies, and the general public.

A primary concern expressed by the State of Alaska, explorers, independent pipeline companies, and federal and state agency representatives, was the fact that the North Slope Producers intend to own and/or control the pipeline, and, were they to succeed in doing so, would have every incentive to enhance and solidify their dominance in the Alaska natural gas production market through their control over the Alaska natural gas pipeline. This expressed concern related not only to the open season process but also to the on-going operating conditions of the pipeline. As to open seasons, the primary concern expressed by these parties is the pipeline's ability to hold open seasons for expansion capacity under conditions that could tilt the balance toward their own production – either through timing, rates, or terms and conditions of service. If the North Slope Producers controlled the pipeline, the Commission was told, the risk would be significant that the North Slope Producers would give themselves preferential access to the pipeline and preferential terms and conditions of service in order to enhance their already dominant market position in Alaska.

These competitive concerns are not new, as noted in the Comments filed by the State of Alaska. Rather, they date back to the Alaska Natural Gas Transportation Act of 1976 (“ANGTA”),³ in the very early stages of the effort to develop a natural gas pipeline to transport Alaska’s North Slope gas to markets in the lower 48 states. That the concerns remain today is clear from the record in Docket No. RM05-1, and ANGPA itself, where Congress directed the Commission to ensure that the rules governing access to the pipeline will “promote competition in the exploration, development, and production of Alaska natural gas.”⁴

The need to establish a level playing field for explorers, both in terms of obtaining capacity and in terms of receiving service, was a fundamental objective of the Commission’s rulemaking proceeding in Docket No. RM05-1. To address the competitive concerns, the Commission found it necessary to impose “strict requirements on all proposals, and *particularly on affiliate-owned projects*, with respect to the public disclosure of information.”⁵ Concerned that even with the informational disclosure requirements there would still be an unacceptable risk that the producer and/or marketing affiliates of a project applicant would have an advantage over non-affiliates, the Commission specifically incorporated into its Order No. 2005 rules certain of the Standards of Conduct promulgated in Order Nos. 2004 *et seq.* to govern the relationship between the project sponsor and any of its marketing or energy affiliates. Moreover, faced with the prospect that the North Slope Producers, themselves, will be the project sponsors conducting the open seasons for capacity on the Alaska pipeline, the Commission required that any project applicant create a unit or division to conduct the open season, which unit or division “will be required to function independent of the *other non-regulated divisions* of the project applicant *as*

³ Pub. L. No. 94-586, 90 Stat. 2903 (1976).

⁴ ANGPA § 103(e)(2)(B).

⁵ *Id.*

well as the project applicant's Marketing and Energy Affiliates."⁶ Through this rule, the Commission independently adopted and made applicable to project applicants conducting an open season for an Alaska natural gas transportation project the following regulations, initially promulgated in Order Nos. 2004 *et seq.*: separation of functions (18 C.F.R. §§ 358.4(a)(1), (3), (4), (5) and (6) and (b)(c)(3), (5) and (6) (2004)); information access (18 C.F.R. § 358.5(b) (2004)); prohibitions against discrimination (18 C.F.R. § 358.5(c)(5) (2004)) and discounts (18 C.F.R. § 358.4(d) (2004)).⁷ The Commission's application of these regulations to an Alaska natural gas transportation project was not the subject of a rehearing request in Docket No. RM05-1 and was not the subject of the court appeal filed in that rulemaking docket.

2. The Standards of Conduct As They Relate To An Alaska Natural Gas Pipeline

The Commission's rulemaking adopting Standards of Conduct for transmission providers in Order Nos. 2004 *et seq.*, as it relates to interstate pipelines, had its genesis in the Standards of Conduct developed in Order No. 497, *et seq.*,⁸ These rules were intended to address the propensity of interstate natural gas pipelines to grant special preferences to their marketing or brokering affiliates over non-affiliates.⁹ The Alaska pipeline was not a focus of the rule. The Commission subsequently promulgated similar Standards of Conduct for electric transmission providers.¹⁰ In an effort to develop one rule applicable to all transmission providers, gas or electric, the Commission synthesized and expanded the application of its Standards of Conduct

⁶ Order No. 2005 at P 74.

⁷ See Order No. 2005 at P 74.

⁸ *Inquiry Into Alleged Anticompetitive Practices Related to Marketing Affiliates of Interstate Pipelines*, Order No. 497, FERC Stats. & Regs. Regulations Preambles 1986-1990 ¶ 30,820 (1988); *order on reh'g*, Order No. 497-A, FERC Stats. & Regs. Regulations Preambles 1986-1990 ¶ 30,868 (1989); *order extending sunset date*, Order No. 497-B, FERC Stats. & Regs. Regulations Preambles 1986-1990 ¶ 30,908 (1990); *order extending sunset date*, Order No. 487-C, FERC Stats. & Regs. Regulations Preambles 1991-1996 ¶ 30,934 (1991), *reh'g denied*, 58 FERC ¶ 61,139 (1992); *aff'd in part and remanded in part sub nom. Tenneco Gas v. FERC*, 969 F.2d 1187 (D.C. Cir. 1992).

⁹ See Order No. 497 at ¶ 31,127; *Tenneco Gas*, 969 F.2d at 1194 (D.C. Cir. 1992)

¹⁰ See *Open Access Same-Time Information System and Standards of Conduct*, Order 889, FERC Stats. & Regs. Regulations Preambles Jan. 1991- Jan. 1996 ¶ 31,035 (1996).

rules in Order Nos. 2004, *et seq.* to govern not only the relationship between transmission providers and their “Marketing Affiliates,” but also the relationship between transmission providers and their “Energy Affiliates.”¹¹ As relevant here, a “Marketing Affiliate” excludes sellers that sell gas solely from their own production or solely from their own gathering or processing facilities.¹² Therefore, with respect to an Alaska pipeline, the Standards of Conduct would not apply to the relationship between the pipeline and its producer affiliates if the rule were restricted to “Marketing” rather than “Energy” affiliates of the pipeline.

In *National Fuel*, the United States Court of Appeals District of Columbia Circuit vacated Order Nos. 2004, *et seq.* as applied to interstate pipelines, noting that while the court had affirmed the rules developed in Order Nos. 497, *et seq.* governing the relationship between interstate pipelines and their “Marketing Affiliates”¹³ there was no record evidence in the Order No. 2004 proceeding supporting the extension of the restrictions to the pipeline’s “Energy Affiliates.”

As a result of the court’s decision in *National Fuel*, the Commission is proposing in this rulemaking to eliminate the restrictions that Order Nos. 2004 *et seq.* placed on the relationships between an interstate pipeline and its “Energy Affiliates” and to reinstate the Order Nos. 497, *et seq.* “Marketing Affiliate” rules. The proposed rule in this proceeding makes no distinction between the application of the “Marketing Affiliate” rules to interstate pipelines, in general, and the application of those rules to an Alaska natural gas transportation project, despite the Commission’s action in Order Nos. 2005 and 2005-A. As explained in greater detail below, it is

¹¹ See *Standards of Conduct for Transmission Providers*, Order No. 2004, FERC Stats. & Regs., Regulations Preambles, 2001-2005 ¶ 31,155 (2003); *order on reh’g*, Order No. 2004-A, FERC Stats. & Regs., Regulations Preambles, 2001-2005 ¶ 31,161 (2004); *order on reh’g*, Order No. 2004-B, FERC Stats. & Regs., Regulations Preambles, 2001-2005 ¶ 31,166 (2003); *order on reh’g*, Order No. 2004-C, FERC Stats. & Regs., Regulations Preambles, 2001-2005 ¶ 31,172 (2004); *order on reh’g*, Order No. 2004-D, 110 FERC ¶ 61,320 (2005).

¹² See, proposed §§ 358.3(e)(3)(i) and (ii).

¹³ *Tenneco Gas v. FERC*, 969 F.2d 1187 (D.C. Cir. 1992).

important that the Commission clarify that its proposed rulemaking in this docket does not impact the adoption of the specific regulations implementing the Standards of Conduct governing the relationship between an Alaska natural gas transportation project, its sponsors, and their Marketing and Energy Affiliates under Order Nos. 2005 and 2005-A.

DISCUSSION

Anadarko fully agrees with and supports the State of Alaska's request that the Commission confirm that the regulations promulgated by Order Nos. 2005 and 2005-A remain intact, including the application of § 157.34(c)(18)-(21), §157.35(c) – (d) to an Alaska natural gas transportation project and its sponsors. Further, Anadarko supports the request by the State of Alaska that the Commission modify its regulations at § 158.1(c) to confirm that the Standards of Conduct govern the not only the relationship between an Alaska natural gas transportation project, its sponsors, and their Marketing Affiliates, but also the relationship between an Alaska natural gas transportation project, its sponsors, and their Energy Affiliates. It is also important that the Commission confirm that as to an Alaska natural gas pipeline, the Standards of Conduct apply in the pre-certification open season process, as provided in Order Nos. 2005 and 2005-A. In this regard, Anadarko respectfully submits that the *National Fuel* decision does not affect the Commission's regulations promulgated in Order Nos. 2005 and 2005-A.

At the heart of the court's decision in *National Fuel* is the proposition that vertical integration creates efficiencies and benefits for consumers, and, therefore, the Commission "cannot impede vertical integration between a pipeline and its affiliates without adequate justification."¹⁴ This proposition derives from the D.C. Circuit's earlier analysis in *Tenneco*, where it found that "in a competitive market, the efficiencies of the pipeline-affiliate relationship

¹⁴ See *National Fuel Gas Supply Corp.*, 468 F.3d at 840 (citing *Tenneco Gas v. FERC*, 969 F.2d 1187, 1199 (D.C. Cir. 1992)).

should produce benefits for consumers.” The *National Fuel* court further commented that “advantages a pipeline gives its affiliate are improper only to the extent that they flow from the pipeline’s anti-competitive market power; otherwise, vertical integration produces permissible efficiencies that cannot by themselves be considered uses of monopoly power.”¹⁵ Because the Commission did not have specific findings of affiliate abuse between a pipeline and its Energy Affiliates, the *National Fuel* court vacated Order No. 2004’s application of the Standards of Conduct to the relationship between a pipeline and its Energy Affiliates.

But, the rationale of *National Fuel* does not apply to an Alaska natural gas transportation project. Firstly, an Alaska natural gas transportation project will be a monopoly. Secondly, the North Slope Producers own over 90% of the natural gas reserves initially available for transportation through the pipeline. Thirdly, the North Slope Producers may well own or control, either themselves or through affiliates, the Alaska natural gas transportation project. Finally, Congress has recognized the unique competitive issues applicable to the development of Alaska natural gas and access to the pipeline by directing the Commission to promulgate regulations governing access to that pipeline that promote competition in the exploration, development and production of Alaska natural gas.

It can safely be said that the market for interstate pipeline capacity in Alaska is *not competitive*. It can also safely be said that the North Slope Producers’ control over the gas reserves that will anchor the project, and their resultant ability to influence the terms and conditions of access to the pipeline, create serious competitive concerns for explorers. These concerns take on added significance in the likely circumstance that the North Slope Producers will own or control the pipeline, either directly or through affiliates. The Commission

¹⁵ See *National Fuel Gas*, 468 F.3d at 840 (citing *Tenneco*, 969 F.2d at 1205)

recognized as much in Order No. 2005 when it stated: “the competitive conditions that are unique to such a project warrant special consideration and oversight.”¹⁶

This is not the natural gas market addressed by the D.C. Circuit in *National Fuel*. This is the Alaska natural gas market – a market with respect to which the Commission received considerable evidence during the rulemaking proceeding in Docket No. RM05-1, and which has been the subject of substantial competitive analyses since the 1970’s, during which time the United States Department of Justice (“DOJ”) conducted an extensive study into the anticompetitive issues related to an Alaska natural gas pipeline.¹⁷ Even then, DOJ identified serious anticompetitive concerns associated with a producer-sponsored Alaska natural gas pipeline, concluding that “an ownership interest, or participation in any form in the transportation system, by producers of significant amounts of natural gas, or their subsidiaries or affiliates, should be prohibited.”¹⁸ The DOJ Report discusses not only competition concerns at the very outset of the pipeline planning process, but also competition concerns after the initial construction, noting: “[W]e cannot say that the problem has been solved just because initial pipeline capacity seems adequate (indeed, even if initial capacity strains technical construction and operating capabilities). For the case we are concerned with includes future efforts by other producers to enter the Alaskan field and consequential needs for expanded pipeline capacity Producer-ownership of the pipeline creates incentives to deny or impede such future capacity expansion.”¹⁹

¹⁶ See Order No. 2005 at P 3.

¹⁷ See *Report of the Attorney General Pursuant to the Alaska Natural Gas Transportation Act of 1976* (July 1977) (“*Attorney General Report*”).

¹⁸ *Id.* at p. 80, see also *id.* at pp. v, 29, 30.

¹⁹ *Id.* at p. 39.

The competitive environment in Alaska has not improved since the time of the DOJ Report. In fact, if anything, it has worsened, with the North Slope Producers now owning or controlling over 90% of the discovered natural gas reserves on the North Slope. Faced with these competition concerns and Congressional directives, as well as the extensive record in the RM05-1 rulemaking proceeding, the Commission's decision to apply the Standards of Conduct to the Energy Affiliates, as well as the Marketing Affiliates, of an Alaska natural gas transportation project, and to do so from the outset, is fully justified. Thus, even if the Commission were to have to justify its application of those rules to an Alaska natural gas pipeline project, it could clearly do so.

But, *National Fuel* is simply inapposite. The risk of anti-competitive conduct relating to access to an Alaska natural gas pipeline controlled by the North Slope Producers has been fully recognized by Congress and by the Commission. Here, the threat of a producer-owned or controlled pipeline enabling its producer affiliates to secure capacity under terms and conditions not generally available to their non-affiliated competitors or otherwise to benefit from non-public information or knowledge about the operations and plans of the transmission system is readily apparent. The threat, here, like in *Temaco*, stems directly from the pipeline's monopoly position and the North Slope Producers' control over Alaska's immediately available reserves. The facts are clearly different from those in *National Fuel*.

Finally, as explained by the State of Alaska, and as noted above, the Commission's regulations applying the Energy Affiliate rules to an Alaska natural gas transportation project were not challenged by any party to the proceeding and, therefore, are final and non-appealable. Accordingly, the Commission should confirm that these regulations remain in full force and effect, notwithstanding *National Fuel*.

CONCLUSION

For the reasons set forth above, Anadarko supports the Comments filed by the State of Alaska and urges the Commission to clarify that its open season regulations promulgated in Order Nos. 2005 and 2005-A remain in full force and effect and are not in any way affected by the Commission's actions in this rulemaking proceeding. In addition, Anadarko supports Commission adoption of the suggested clarification to its regulations, as requested by the State of Alaska.

Respectfully submitted,

ANADARKO PETROLEUM CORPORATION.

By: _____ /s/
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Dated: April 30, 2007

April 26, 2007

Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
883 First Street, NE
Washington, D.C.

**RE: Reply Comments of BG E&P Alaska Inc. on Standards of Conduct for
Transmission Providers, FERC Docket No. RM07-1**

Dear Ms. Bose:

BG E&P Alaska Inc. wishes to state its concurrence in the Comments filed by the State of Alaska on March 30, 2007 and the Reply Comments filed by Anadarko Petroleum Corporation on April 27, 2007 in the above-referenced rulemaking proceeding.

As noted by the State of Alaska and Anadarko, the Commission's rules promulgated in Docket No. RM05-1 governing the application of the Standards of Conduct to the sponsors of an Alaska natural gas transportation project are final, non-appealable rules and are fully justified by the record in that docket. Moreover, the need for rules governing the disclosure of information to the Energy Affiliates of the project sponsors during the open season, and to the pipeline once it is in existence, are essential if there is to be any semblance of a level playing field between the North Slope Producers and explorers in Alaska.

The unique competitive concerns in Alaska have been recognized by Congress and by this Commission in the Alaska Natural Gas Transportation Act, the Alaska Natural Gas Pipeline Act, and the rules promulgated by the Commission in Order Nos. 2005 and 2005-A. Accordingly, BG E&P Alaska joins in the positions expressed by the State of Alaska and Anadarko.

Respectfully submitted,



David N. Keane

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF OIL & GAS

SARAH PALIN, GOVERNOR

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May 18, 2007

RECEIVED
MAY 23 2007

The Honorable Bert Stedman
Co-Chair Senate Finance Committee
State Capitol, Room 516
Juneau, AK 99801-1182

RE: Royalty and Tax Incentives Presentation to Senate Finance April 25, 2007

Dear Senator Stedman:

On Thursday, April 25, 2007, I gave a presentation to the Senate Finance Committee about the various royalty and tax incentives that are now available to the oil and gas industry in Alaska. As I indicated during my testimony, I was unable to prepare a formal slide presentation on short notice. Instead, I promised the committee that I would follow-up with a memo that would summarize my presentation. Here is the summary.

The catalogue of royalty and tax incentives now offered by the state of Alaska are available to any qualified company willing to commit to exploring and developing the state's oil and gas resources. It should be noted that, while there is a growing interest to find natural gas in anticipation of the North Slope gasline, the principal target of these incentives on the North Slope has been the exploration and development of oil. These incentives are sought after by explorers and developers who face a commercial landscape where access to regulated oil pipelines in the state is not constrained and where the oil pipeline version of rolled-in rates is available.

Explorers want incentives for marginal oil prospects even though the transportation cost, as a proportion of the market value of oil, is relatively small. Commercializing gas is challenged by the relatively higher cost of transportation as a proportion of market value. To illustrate this point, consider that the combined marine transportation and TAPS tariff is about \$7.00 per barrel for ANS crude oil that sells in the U.S. West Coast for more than \$60.00. Contrast this with a \$2.00 - \$2.50 per mmBtu tariff on ANS gas that today sells for \$6.50. On an energy equivalent basis, the cost of transportation for gas is two-to-three times the cost of transportation for oil.

The division has incorporated all of the incentives that are currently available in the prospect modeling done in our economic analysis of AGIA. Because they are available to every company, these incentives, by themselves, do not favor the explorer/developers vis-à-vis incumbent producers. To provide pipeline access for these players, the terms in AGIA are required.

During the hearing on April 25, 2007 committee members were given a list of the royalty and tax incentives now offered by the state. Some of these incentives are particularly focused on different regions in the state. During my testimony, I focused on those that applied to the North Slope.

"Develop, Conserve, and Enhance Natural Resources for Present and Future Alaskans."

DIRECTED INCENTIVES

Exploration Incentive Credits (EICs)

AS 38.05.180(i) provides royalty and tax credits for up to 50 percent of drilling costs on a lease or 50 percent of seismic costs on unleased state lands. This provision allows DNR to incorporate the credit as part of a lease offered in our conventional lease sales. Since the state began offering EICs under this program, 22 exploratory wells qualifying for credit have been drilled on state leases. This has resulted in approximately \$60 million in credits for exploratory drilling since 2004. There have been no applications for geophysical EICs.

AS 41.09.010 provides royalty and tax credits for up to 50 percent of drilling and seismic costs on unleased state and non-state lands. It also provides up to 50 percent of the seismic costs on lands within an exploration license area. The program is capped at \$500,000 per project with a total program cost capped at \$30 million. Data acquired under this program must be made public after two years. This provision expires on July 1, 2007.

Exploration Tax Credits

AS 43.55.025 provides an incentive credit for work performed between July 1, 2003 and July 1, 2016. The applicant may receive a production tax credit of 20 percent of drilling costs if the well is more than 3 miles from an existing oil and gas well or more than 25 miles from an existing unit (more than 10 miles from a unit in Cook Inlet). An applicant who meets both conditions may receive a credit of 40 percent. An applicant may also receive a credit for 40 percent of seismic costs if outside of an existing unit.

For income tax, AS 43.20.043 provides an incentive of up to 10 percent of the qualified capital investment costs for any oil and gas activity south of 68° latitude. The program applies to cost expended after the program was initiated on June 30, 2003 and is capped at 50 percent of the taxpayer's tax liability. Carry-forwards are allowed. These credits can be transferred if the entire business of the taxpayer is sold. The credit ceases to apply once production starts. The applicant cannot "double dip" other tax credits offered by the state.

Royalty Reduction/Modification

AS 38.05.180(j) provides three opportunities to modify royalty rates on a lease: to encourage development and production in a field or pool that would not otherwise be developed; to provide for a lower royalty rate where a field has shut in; or provide a lower royalty rate to extend field life. In the first instance, the royalty rate cannot go below 5 percent and must include a mechanism that accommodates for changes in price and may include a mechanism for changes in production rates, costs, etc. The royalty rate may be reduced to as low as 3 percent in the second and third instances.

Royalty modification under this statute has been approved only once, for leases at the Oooguruk Unit development project (2006). No production has occurred to-date at Oooguruk. Royalty modification for Oooguruk reduced total state revenues by \$111 million and added 8.4 percentage points to the producer's IRR (including PPT; see below.)

Cook Inlet Platform Royalty Relief

AS 38.05.180(f)(6) provides for a sliding scale royalty rate between a low of 5 percent and the lease rate depending on per-barrel production rates measured over a three month period on platforms and selected units within the Cook Inlet basin. The table below illustrates how the royalty rates are set.

Dolly, Grayling, King Salmon, Steelhead				
< 1200 Bpd = 5%	1200-1300 Bpd = 7%	1300-1400 Bpd = 8.5%	1400-1500 Bbl = 10%	>1500 Bpd = 12.5%
Baker, Dillon, "A", "C"				
<975 = 5%	975-1100 Bpd = 7%	1100-1200 Bbl = 8.5%	1200-1350 Bpd = 10%	>1350 = 12.5%
Granite Point, Anna, Bruce, and West McArthur River Unit				
<750 = 5%	750-850 Bpd = 7%	850-1000 Bbl = 8.5%	1000-1200 Bpd = 10%	>1200 = 12.5%

The Baker and "A" platforms have been shut-in. All other platforms are still in production.

Discovery Royalty

AS 38.05.180(f)(4) provides for a discovery royalty of 5 percent on leases issued before 1969. This discovery royalty is now rarely available because most of the leases where this discovery royalty may apply have expired.

AS 38.05.180(f)(5) provides for a 5 percent royalty rate in the following six fields in the Cook Inlet: Falls Creek, Nicolai Creek, Starichkof, North Fork, Redoubt Shoals, and West Foreland. In order to receive this incentive, the fields must be in production by January 1, 2004.

Lease Valuation Modification

AS 38.05.180(aa) substitutes for the lease term that requires the lessee to pay royalties based on the "higher-of" actual proceeds, market value, or the actual proceeds of other lessees in the same field. Instead, the value of royalty production sold by the lessee to a utility will be based on the contract price.

AS 38.05.180(cc) substitutes for the lease term that requires the lessee to pay royalties based on the "higher-of" actual proceeds, market value, or the actual proceeds of other lessees in the same field. Instead, the value of royalty production sold by the lessee to a chemical fertilizer plant will be based on the contract price.

PPT INCENTIVES

Tax Ceiling based on the Economic Limit Factor

AS 43.55.011(j) and (k) provides that the tax payer will pay no more than the tax it would owe under the severance tax and ELF system. Applies to production only in the Cook Inlet.

Qualified CapEx Credits

AS 43.55.023(a) provides a 20 percent transferrable tax credit under PPT for qualified capital expenditures.

Loss Carry-Forward Credits

AS 43.55.023(b) provides 20 percent transferrable tax credits under PPT for capital expenditures if the taxpayer is unable to take advantage of the qualified capex credits in any year.

Transition Investment Expenditure Credits

AS 43.55.023(i) provides a non-transferrable tax credit based on 20 percent of the capital expenditures incurred by the taxpayer between 2001 and 2006. The amount taken as a credit under this section may not exceed 10 percent of the taxpayer's qualified capital expenditures incurred during the calendar year for which the credit is taken.

Frontier Basin Production Credit

AS 43.55.023(a) provides a non-transferrable tax credit of up to \$6 million for production south of 68° latitude and outside of the Cook Inlet basin. This credit will sunset in 2016.

Small Producer Credit

AS 43.55.023(c) provides for a non-transferrable tax credit of up to \$12 million for small producers. The tax credit is based on a sliding scale: a producer whose statewide production is 50,000 barrels per day or less qualifies for the full \$12 million tax credit, at 100,000 barrels per day the credit amount falls to zero.

As part of its evaluation of both the Oooguruk Unit and Nikaichuq Unit royalty modification applications, DNR examined the impact of the PPT and the PPT tax incentives on new development economics. In both cases, the producer will pay more taxes on an undiscounted basis but, when discounted, the cash flows to the producer are significantly enhanced. For example, at DNR's mean price (\$33) the Oooguruk the producer NPV(10) rose by nearly \$90 million and 6.5 percentage points were added to the producer IRR. Similarly, the Nikaichuq producer will realize a \$120 million in tax savings (discounted) with similar increases in producer IRR.

PROGRAM INCENTIVES

Exploration Licensing

AS 38.05.132 provides the authority to the DNR commissioner to award an exploration license of up to 500,000 acres in return for a work commitment from the licensee. The licensee pays no bonus bid, only a one-time \$1.00 per acre fee, and no rental. The license may eventually be converted to a conventional oil and gas lease upon expiration of the license. Normal oil and gas lease obligations will apply at that point, i.e., a 12.5 percent minimum royalty rate, rent, and term.

DNR has issued four licenses in three basins since the inception of this program, two in Susitna basin (both in 2003), and one each in Nenana (2002) and Copper River (2000) basins. Additionally, a license was issued but not executed by the licensee in the Bristol Bay basin (2004).

Nonconventional Gas Incentive

AS 38.05.180(n)(2) provides that the commissioner may award a lease for only gas and offer a 6.25 percent royalty and reduced rent if the lease is located in a region where gas from the lease does not compete with gas produced from conventional oil and gas leases, i.e., gas supplied to the Red Dog mine.

FEDERAL OUTER CONTINENTAL SHELF LEASES

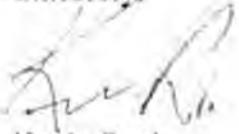
The U.S. Department of the Interior, Minerals Management Service, has offered leases in the Beaufort Sea that provides a royalty suspension volume (RSV), the initial volume of production that is free of royalty. The RSV differs by lease size and location. Zone A is near existing infrastructure in the central part of the Beaufort Sea planning area; Zone B includes areas east and west of the existing infrastructure and the deep water. The lessee receives the benefit of the RSV only if it successfully discovers and develops oil on the lease.

Lease Size	Zone A	Zone B
< 771 Hectares (-2000 ac)	10 MMB	15 MMB
771 - 1541 ha (2000 - 3800 ac)	20 MMB	30 MMB
> 3800 ha (3800 ac)	30 MME	45 MMB

The RSV program is subject to a price ceiling \$39 per barrel, sustained for a year and adjusted for inflation (the 2004 ceiling = \$41.47 per barrel). At this level, the lessee must pay royalty on all of the oil produced from the lease. If the price of oil falls below \$21 per barrel through a quarter, the lessee pays no royalty and the royalty-bearing volumes suspended during this time do not count against the RSV.

There is no similar incentive program offered on federal lands within the NPRA.

Sincerely,


Kevin Banks
Acting Director

cc: Tom Irwin, Commissioner DNR
Marty Rutherford, Deputy Commissioner DNR
Pat Galvin, Commissioner DOR
Jon Iverson, Director Tax Division DOR

SB

105

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSSB 105(TRA)
(S) Publish Date: 3/23/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
Title Reimbursement for Municipal Debt RDU Community Assist & Ec Dev (405)
Component Community Advocacy
Sponsor Hoffman
Requester Senate Transportation Component No. 2703

Expenditures/Revenues (Thousands of Dollars)

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

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

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation amends AS 29.60.700 (a) to extend from July 1, 2007 to July 1, 2012 the date by which the Department of Transportation and Public Facilities may reimburse municipalities for debt incurred on certain projects. This legislation has no fiscal impact on the operations of division.

Prepared by: Mike Black, Director
Division: Community Advocacy
Approved by: Emil Notli, Commissioner
Agency: Commerce, Community, and Economic Development

Phone 907.269.4535
Date/Time 3/19/07 5:09 PM
Date 3/19/2007

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSSB 105(TRA)
(S) Publish Date: 3/23/07

Revision Date/Time (Note if correction): _____ Dept. Affected: DOT&PF
Title Reimbursement for Municipal Debt RDU Administrative Services
Component Commissioner's Office
Sponsor Sen. Hoffman
Requester Senate TRA Component No. 530

Expenditures/Revenues (Thousands of Dollars)

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

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

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

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

This bill will have no fiscal impact on the Department of Transportation and Public Facilities as debt reimbursement is a separate appropriation. The cost of passing the funding through to municipalities is negligible.

Prepared by: Mary Siroky, Special Assistant
Division: Commissioner's Office
Approved by: Leo von Scheben, Commissioner
Agency: Department of Transportation and Public Facilities

Phone 465-4772
Date/Time 3/19/07 9:00am
Date 3/19/2007

ALASKA STATE LEGISLATURE

Session:
State Capitol, Rm 518
Juneau, AK 99801
(907) 465-4453
Fax (907) 465-4523

Interim:
716 W. 4th Ave.
Anchorage, AK 99501
(907) 269-0269
Fax (907) 269-0270

Senator_Lyman_Hoffman@legis.state.ak.us



Co-Chair Finance Committee
Vice-Chair Legislative Budget & Audit

Committee Member:
Labor & Commerce
Legislative Council
World Trade & State/Federal Relations

SENATOR LYMAN F. HOFFMAN

SPONSOR STATEMENT

Senate Bill 105

Reimbursement for Municipal Debt for a Small Boat Harbor

The legislature passed HB 528 in 2002 as debt reimbursement for certain capital projects. Included in the list of projects was a small boat harbor in Unalaska approved for a \$5 million dollar debt reimbursement through the Department of Transportation and Public Facilities, and it has been delayed due to exhaustive permitting requirements. The permitting process started in 1996 and was just completed in 2006.

The Corps of Engineers Civil Branch is responsible for the construction and maintenance of the outer breakwaters for the project, and the city is responsible for construction of the inner harbor improvements and providing the utilities for the project. As a Corps of Engineers sponsored project, it must be authorized within the Water and Resource Development Act through Congress. The first Environmental Assessment (EA) resulted in an inability to sign a FONSI or "Finding of no significant impact". A second EA resulted in the same failure due to claims by the US Fish and Wildlife Service that the Corps had not followed the National Environmental Protection Act and demanded an Environmental Impact Statement (EIS) be accomplished. The Corps undertook and completed an EIS in 2004 but the Record of Decision was not signed until six months ago due to staff retirements in Washington DC. The total cost of permitting was well over \$3 million dollars.

The cost estimates for the Corps' responsibility, or outer breakwaters, is \$12 million dollars. The City cannot construct any part of the inner harbor improvements until the outer breakwaters are constructed. Delays in the Corps permitting process and delays in obtaining congressional appropriations have kept the City of Unalaska from obligating these funds. The required funds for the City's portion of the project are \$13 million and that money is set aside with the \$5 million dollar debt reimbursement in question as part of this financing package.

The City of Unalaska is prepared to move forward the minute that the Corps of Engineers gets the funding, however, the deadline for the debt reimbursement is June 30, 2007. SB 105 will allow the City to complete the design, prepare bid documents, and obligate the funds in time to complete the small boat harbor project.

SB

105

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT
MAR 26 2007
 SENATE FINANCE COMMITTEE

DATE: 3/23/07

FURTHER:

 DATE TURNED IN TO OFFICE: 3/26/07
Finance Committee considered SENATE BILL NO. 105

SB 105 REIMBURSEMENT FOR MUNICIPAL DEBT

"An Act relating to reimbursement to municipalities by the Department of Transportation and Public Facilities for debt incurred by those municipalities for certain capital projects; and providing for an effective date."

and recommends:

- be replaced with SCS or CS _____ (_____)
- adopt previous SCS or CS SB 105 (TRA)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:
 Same Title
 New Title

HOUSE BILL:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

 APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	Eiler	✓			
	Thomas	✓			
	Dyson	✓			
	Huggins	✓			
	Olson			✓	
CO-CHAIR:	Hoffman	✓			
CO-CHAIR:	Sledman	✓			

FISCAL NOTE

REPORTED OUT
MAR 26 2007
SENATE FINANCE COMMITTEE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSSB 105(TRA)
(S) Publish Date: 3/23/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
Title Reimbursement for Municipal Debt RDU Community Assist & Ec Dev (405)
Sponsor Hoffman Component Community Advocacy
Requester Senate Transportation Component No. 2703

Expenditures/Revenues (Thousands of Dollars)

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

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

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation amends AS 29.60.700 (a) to extend from July 1, 2007 to July 1, 2012 the date by which the Department of Transportation and Public Facilities may reimburse municipalities for debt incurred on certain projects. This legislation has no fiscal impact on the operations of division.

Prepared by: Mike Black, Director
Division: Community Advocacy
Approved by: Emil Notti, Commissioner
Agency: Commerce, Community, and Economic Development

Phone 907.269.4535
Date/Time 3/19/07 5:09 PM
Date 3/19/2007

FISCAL NOTE

REPORTED OUT
MAR 26 2007
SENATE FINANCE COMMITTEE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: CSSB 105(TRA)
(S) Publish Date: 3/23/07

Revision Date/Time (Note if correction): _____ Dept. Affected: DOT&PF
Title: Reimbursement for Municipal Debt RDU: Administrative Services
Component: Commissioner's Office
Sponsor: Sen. Hoffman
Requester: Sonate TRA Component No.: 530

Expenditures/Revenues (Thousands of Dollars)

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

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

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
-------------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill will have no fiscal impact on the Department of Transportation and Public Facilities as debt reimbursement is a separate appropriation. The cost of passing the funding through to municipalities is negligible.

Prepared by: Mary Siroky, Special Assistant
Division: Commissioner's Office
Approved by: Leo von Scheben, Commissioner
Agency: Department of Transportation and Public Facilities

Phone: 465-4772
Date/Time: 3/19/07 9:00am
Date: 3/19/2007

ALASKA STATE LEGISLATURE

Session:
State Capitol, Rm 518
Juneau, AK 99801
(907) 465-4453
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Senator_Lyman_Hoffman@legis.state.ak.us



Co-Chair Finance Committee
Vice-Chair Legislative Budget & Audit

Committee Member:
Labor & Commerce
Legislative Council
World Trade & State/Federal Relations

SENATOR LYMAN F. HOFFMAN

SPONSOR STATEMENT

Senate Bill 105

Reimbursement for Municipal Debt for a Small Boat Harbor

The legislature passed HB 528 in 2002 as debt reimbursement for certain capital projects. Included in the list of projects was a small boat harbor in Unalaska approved for a \$5 million dollar debt reimbursement through the Department of Transportation and Public Facilities, and it has been delayed due to exhaustive permitting requirements. The permitting process started in 1996 and was just completed in 2006.

The Corps of Engineers Civil Branch is responsible for the construction and maintenance of the outer breakwaters for the project, and the city is responsible for construction of the inner harbor improvements and providing the utilities for the project. As a Corps of Engineers sponsored project, it must be authorized within the Water and Resource Development Act through Congress. The first Environmental Assessment (EA) resulted in an inability to sign a FONSI or "Finding of no significant impact". A second EA resulted in the same failure due to claims by the US Fish and Wildlife Service that the Corps had not followed the National Environmental Protection Act and demanded an Environmental Impact Statement (EIS) be accomplished. The Corps undertook and completed an EIS in 2004 but the Record of Decision was not signed until six months ago due to staff retirements in Washington DC. The total cost of permitting was well over \$3 million dollars.

The cost estimates for the Corps' responsibility, or outer breakwaters, is \$12 million dollars. The City cannot construct any part of the inner harbor improvements until the outer breakwaters are constructed. Delays in the Corps permitting process and delays in obtaining congressional appropriations have kept the City of Unalaska from obligating these funds. The required funds for the City's portion of the project are \$13 million and that money is set aside with the \$5 million dollar debt reimbursement in question as part of this financing package.

The City of Unalaska is prepared to move forward the minute that the Corps of Engineers gets the funding, however, the deadline for the debt reimbursement is June 30, 2007. SB 105 will allow the City to complete the design, prepare bid documents, and obligate the funds in time to complete the small boat harbor project.

Article 09. REIMBURSEMENT FOR COSTS OF PORT AND HARBOR BONDS

Sec. 29.60.700. Reimbursement for costs of municipal capital projects.

- (a) Subject to appropriations for the purpose, during each fiscal year, the Department of Transportation and Public Facilities shall allocate to each municipality an amount to reimburse the costs paid by the municipality during the immediately preceding fiscal year for the principal and interest on outstanding debt for projects listed in (b) of this section. An allocation may be made to a municipality only if
- (1) the debt was incurred by the municipality before July 1, 2007; and
 - (2) the project or facility financed with the debt proceeds is located in the municipality and the project or facility is operated or controlled by the municipality.
- (b) The Department of Transportation and Public Facilities may make an allocation to a municipality under (a) of this section only for reimbursement of costs incurred for the following construction and renovation projects and only for reimbursement of total project costs incurred up to the following amounts:

PROJECT

Valdez	\$ 3,013,500
Nome	\$ 1,000,000
Anchorage (Port of Anchorage expansion)	\$ 15,000,000
Matanuska-Susitna Borough (deep water port and road upgrade)	\$ 10,000,000
Unalaska (LSA small boat harbor)	\$ 5,000,000
Aleutians East Borough/Akutan (small boat harbor)	\$ 4,000,000
Lake and Peninsula Borough/Chignik (dock project)	\$ 1,000,000
Aleutians East Borough/False Pass (small boat harbor)	\$ 2,000,000
Fairbanks North Star Borough (Eielson AFB schools, maj maint)	\$ 4,500,000
City of Fairbanks (fire headquarters station replacement)	\$ 7,500,000
Saxman (public safety building)	\$ 1,500,000

CITY OF UNALASKA

P.O. BOX 610

UNALASKA, ALASKA 99685-0610

(907) 581-1251 FAX (907) 581-1417



March 5, 2007

The Honorable Lyman Hoffman
Alaska Senate Legislature
State Capital, Room 514
Juneau, Alaska 99801-1182

RE: City of Unalaska statement of support for SB 105

Senator Hoffman:

On behalf of the community of Unalaska/Dutch Harbor, I wish to personally convey my gratitude for the introduction of SB 105. The City of Unalaska fully and wholeheartedly supports passage of SB 105. The bill simply extends to 2012 the time the City has to issue its debt in the amount of \$5.0 million. The original authorization passed the legislature in 2002 as HB 528.

Due to circumstances beyond our control the project construction has been delayed and we need more time to finish the City's part of the harbor project.

This project was formally started in the mid 1990s by Representative Carl E. Moses on behalf of the City of Unalaska. The project is being pursued through the Corps of Engineers, Civil Branch, which is responsible for the construction of the breakwaters, at a cost of \$12 million. The City's responsibility for the project is to design and build the inner harbor improvements and to provide the utilities. Project costs for the City's improvements are estimated to be \$13 million.

The project has been delayed for several years by an unforeseen protracted permitting process, which cost over \$3 million, and by two Environmental Assessments and an Environmental Impact Statement, all three of which have been completed by the Corps. We are currently waiting for Congressional appropriation to place \$12 million in the Corps of Engineers budget to construct the outer breakwaters. Until the outer breakwaters are constructed, the City of Unalaska cannot install the inner harbor improvements and thus cannot obligate the funds by June 30, 2007.

We are in full support of an extension of the debt authorization to July 1, 2012 in the event that there are further delays beyond our control. This is a long-anticipated project, and we are ready to move forward with final design and construction the moment the Corps completes the outer breakwater designs and obtains the \$12 million for construction. The success of this project is dependant on the passage of SB 105, which allows the City of Unalaska to utilize debt authorized for this project by the Alaska State Legislature in 2002.

Again, I wish to thank you for your leadership in submitting this bill on our behalf, and would be pleased to answer any questions that you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Shirley Marquardt".

Mayor Shirley Marquardt

cc The Honorable Albert Kookesh, Senator
Senate Transportation Committee Members

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 3/5/07

FURTHER: Finance

Date of 5-Day Notice: 3/14/07
 (in accordance with Uniform Rule 23)

DATE TURNED
 IN TO OFFICE: 3/20/07

Transportation Committee considered SENATE BILL NO. 105

SB 105 REIMBURSEMENT FOR MUNICIPAL DEBT

"An Act relating to reimbursement to municipalities by the Department of Transportation and Public Facilities for debt incurred by those municipalities for certain capital projects; and providing for an effective date."

and recommends:

- be replaced with SCS or CS SB 105 (TRA)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:	
<input type="checkbox"/>	Same Title
<input checked="" type="checkbox"/>	New Title
HOUSE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
CEO	3/19/07			✓	1
DOT	3/19/07			✓	2

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	OLSON	✓			
	Wilken			✓	
	Wielechowski	✓			
	Courdey	✓			
CHAIR:	Kockesh	✓			

SB

1 1 1

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

REPORTED OUT
MAY 04 2007
SENATE FINANCE COMMITTEE

DATE: 4/25/07

FURTHER:

DATE TURNED
IN TO OFFICE: 5/4/2007

Finance Committee considered SENATE BILL NO. 111

SB 111 KODIAK NARROW CAPE PUBLIC USE AREA

"An Act creating the Kodiak Narrow Cape Public Use Area."

and recommends:

- be replaced with SCS or CS _____ (_____)
- adopt previous SCS or CS SB 111 (RES)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:
 Same Title
 New Title

HOUSE BILL:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

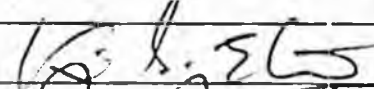
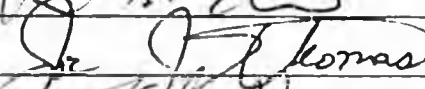
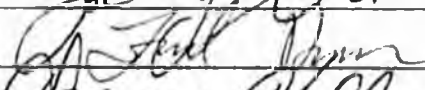
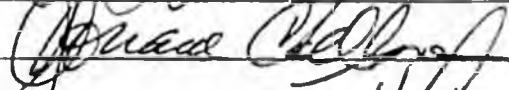
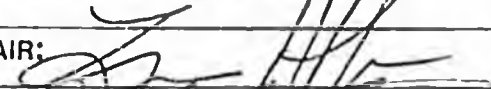

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
DNR	4/24			✓	1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	Do NOT PASS	NO REC	AMEND
	Elton	✓			
	Thomas	✓			
	Dyson	✓			
	Olson	✓			
CO-CHAIR: 	Hoffman	✓			
CO-CHAIR: 	Stedman	✓			

FISCAL NOTE

REPORTED OUT
MAY 04 2007
SENATE FINANCE COMMITTEE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSSB 111(RES)
(S) Publish Date: 4/25/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
Title: Kodiak Narrow Cape Public Use Area RDU: Resource Development
Component: Claims, Permits and Leases
Sponsor: Sen. Stevens
Requester: Senate Resources Component No. 2460

Expenditures/Revenues (Thousands of Dollars)

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

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

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The bill establishes the Kodiak Narrow Cape Public Use Area. The legislation provides that DNR may prepare and adopt a land management plan under the department existing authority (AS 38.04.065) and manage the area consistent with the purposes established in the legislation.

However, DNR believes that the existing Kodiak Area Plan for State Lands adopted in 2004, in coordination with this legislation, is sufficient to address the current public land use issues in the area. Therefore, a new detailed management plan for the Narrow Cape area will not be required at this time.

Because DNR has no plans to prepare a new management plan specifically for the Kodiak Narrow Cape Public Use Area in the near future it is submitting this "zero" fiscal note.

Prepared by: Dick Mylius, Acting Director
Division: Mining, Land & Water
Approved by: Tom Irwin, Commissioner
Agency: Natural Resources

Phone: 269-8600
Date/Time: 4/24/2007
Date: 4/24/2007

ALASKA STATE LEGISLATURE



SESSION ADDRESS
Alaska State Capitol
Juneau, AK 99801-1182
(907) 465-4925
Fax (907) 465-3517

INTERIM ADDRESS
112 Mill Bay Road
Kodiak, AK 99615
(907) 486-4925
Fax (907) 486-5264

Senator Gary Stevens Majority Leader

Sponsor Statement for CS for Senate Bill 111 (RES) "An Act creating the Kodiak Narrow Cape Public Use Area"

CS for SB 111 (RES) proposes the establishment of a new public use area of 46,902 acres for the Narrow Cape area on Kodiak Island.

Located at the end of the Kodiak Island Road System, Narrow Cape is an important public use and recreational area, used for a wide range of activities including hiking, picnicking, berry picking, fossil collecting, surfing, horseback riding, all terrain vehicle driving, beachcombing, and other traditional public uses of fish and wildlife populations such as fishing, hunting, viewing and photographing of gray whales and waterfowl. This area is also subject to existing grazing leases and an interagency land management agreement with the Alaska Aerospace Development Corporation for the Kodiak Launch Complex.

Creation of a public use area for Narrow Cape recognizes the special multiple use activities within this area, and increases the protection to ensure continued public use is allowed. At the same time, valid existing rights are protected. Explicit language is included in Sec. 41.23.250(c) listing grazing and missile launch activity as allowable uses.

Additional protection is afforded under Sec. 42.23.250(b) by not allowing the commissioner of natural resources to dispose of the surface estate in state land within the public use area. This provision means that any disposal of the surface estate will require approval by a future legislature.

Creation of a public use area triggers a requirement to adopt and maintain a management plan for the area, which should help to manage any use conflicts and ensure the important multiple uses are managed in an active manner.

Recent initiatives such as the proposal a few years ago to transfer this land to the University of Alaska triggered a review of possible steps to recognize and protect the important public use values of this land. This move is a reasoned, time-tested approach to manage multi-use activities, while providing more assurance that a range of public uses will not be diminished or eliminated.

I ask for your support of this important legislation.

LEGAL SERVICES

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

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101


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

MEMORANDUM

March 16, 2007

SUBJECT: Sectional summary for SB 111 (Work Order No. 25-LS0695\C)

TO: Senator Gary Stevens
Attn: Doug Letch

FROM: 
Donald M. Bullock Jr.
Legislative Counsel

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

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

Section 1. Adds four sections to AS 41.23 that create the Kodiak Narrow Cape Public Use Area.

Sec. 41.23.240. States the purpose for creating the public use area.

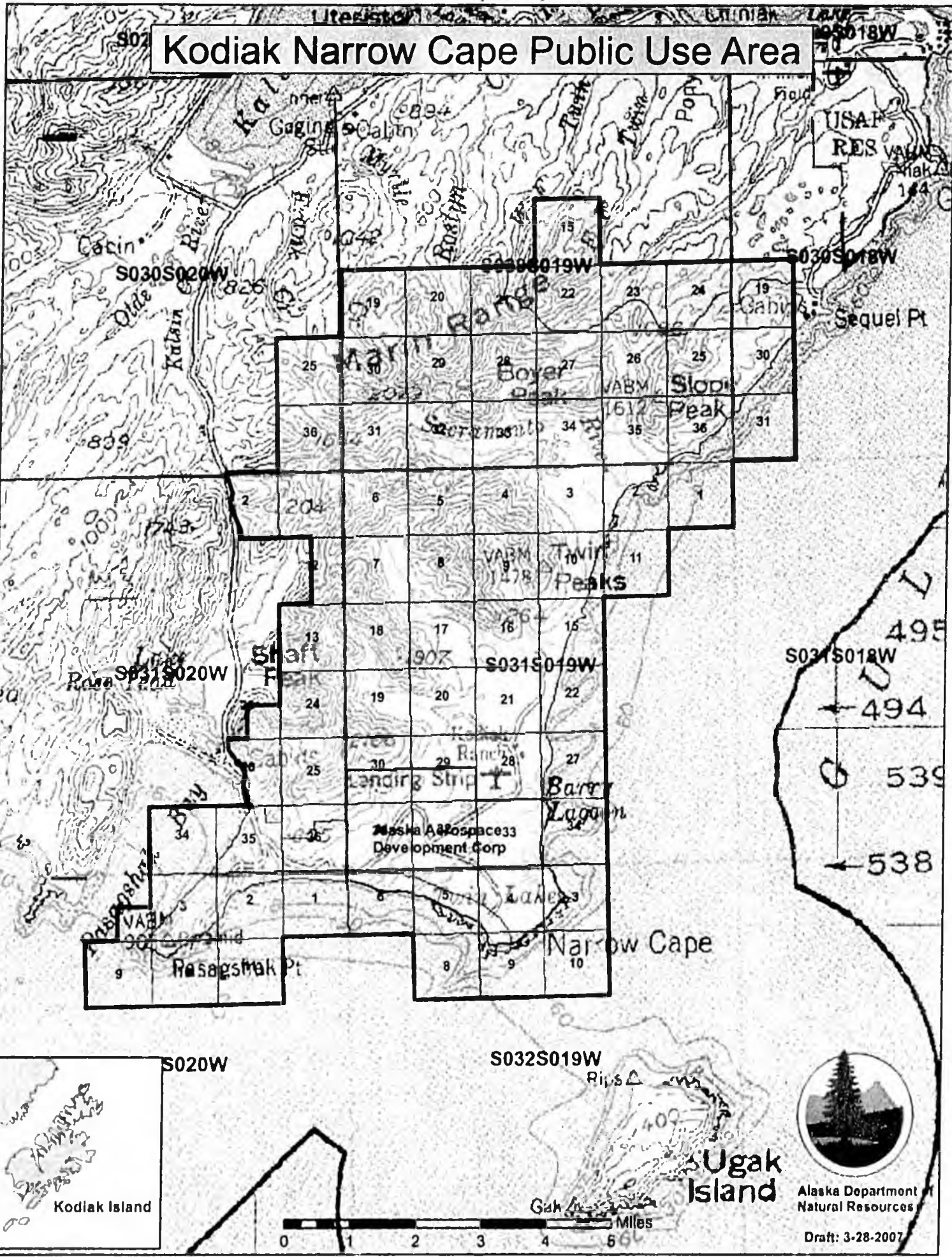
Sec. 41.23.250. Assigns the management of the public use area to the commissioner of natural resources and requires the commissioner to develop a management plan. Recognizes grazing and missile launch activity as allowable uses within the public use area. Lists specific uses that are consistent with the purpose for establishing the public use area and authorizes the commissioner to allow additional consistent uses. Prohibits the exercise of the power of eminent domain to acquire privately owned land within the boundaries described in AS 41.23.270, but authorizes the acquisition of privately owned land by purchase, exchange, or other means. Prohibits the commissioner from managing the public use area as a unit of the state park system.

Sec. 41.23.260. Authorizes the commissioner of natural resources to prohibit or restrict uses determined to be incompatible with the purposes of the public use area. Allows the Department of Public Safety and the Department of Fish and Game access to the public use area for management of fish and wildlife and for enforcement purposes. Prohibits the restriction of fishing, hunting, or trapping rights. Requires the commissioner of natural resources to allow the use of motorized and non motorized means of transportation. Requires the commissioner of natural resources to explain the basis for finding an incompatible use.

Sec. 41.23.270. Describes the boundaries within which the public use area is created and designates the state land within those boundaries as the Kodiak Narrow Cape Public Use Area.

DMB:ljw
07-142.ljw

Kodiak Narrow Cape Public Use Area



USAF RES

Sequel Pt

Twirl Peaks

Shaft Peak

Barr Lagoon

Masha Aerospace Development Corp

Narrow Cape

Ugak Island



Alaska Department of Natural Resources

Draft: 3-28-2007

Kodiak Island



Introduced by: Manager Gifford
Requested by: Manager Gifford
Drafted by: Manager Gifford
Introduced: 03/15/2007
Adopted: 03/15/2007

**KODIAK ISLAND BOROUGH
RESOLUTION NO. FY2007-30**

**A RESOLUTION OF THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH
URGING THE ALASKA STATE LEGISLATURE TO CREATE
THE KODIAK NARROW CAPE PUBLIC USE AREA**

WHEREAS, the purpose of AS 41.23.240-41.23.270 is to protect, maintain, enhance and perpetuate the present use of the area described in AS 41.23.270 as the Kodiak Narrow Cape Public Use Area; and

WHEREAS, the Kodiak Narrow Cape Public Use Area is established to:

1. protect, maintain, perpetuate, and enhance year-round general public recreation;
2. protect, maintain, perpetuate, and enhance public enjoyment and use of fish and wildlife and existing grazing rights;
3. allow additional public uses of the area in a manner compatible with the purposes specified in (1) and (2); and

WHEREAS, the Alaska Department of Natural Resources (DNR) currently maintains control of State owned land at Narrow Cape on Kodiak Island; and

WHEREAS, 2,486 Kodiak Island Borough residents signed a petition in 2005 that opposed closure of public access to state lands at Narrow Cape; and

WHEREAS, Kodiak Island Borough residents value the Narrow Cape area and there is a high level of concern that access to this important area be maintained; and

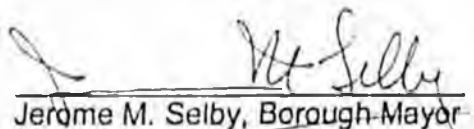
WHEREAS, the Kodiak Island Borough is desirous that this land can never be sold and that public use of the area's trails, beaches, and natural resources are to be maintained as a permanently designated public use and recreational use areas; and

WHEREAS, the Hatcher Pass area and the Nelchina area have been designated public use areas by the Alaska State Legislature; and

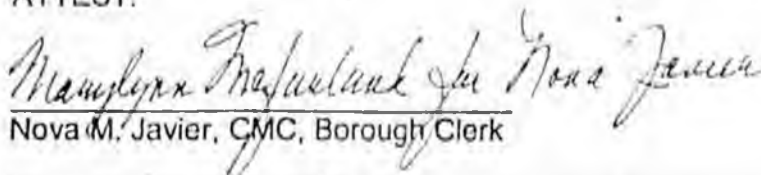
NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH that the Alaska State Legislature designate the state owned land on Narrow Cape as a permanent public use area administered by DNR that prevents it from being sold or closed to public use.

**ADOPTED BY THE ASSEMBLY OF THE KODIAK ISLAND BOROUGH
THIS FIFTEENTH DAY OF MARCH 2007**

KODIAK ISLAND BOROUGH


Jerome M. Selby, Borough Mayor

ATTEST:


Nova M. Javier, CMC, Borough Clerk

**CITY OF KODIAK
RESOLUTION NUMBER 07-11**

**A RESOLUTION OF THE COUNCIL OF THE CITY OF KODIAK URGING
THE ALASKA STATE LEGISLATURE TO CREATE THE KODIAK NARROW CAPE
PUBLIC USE AREA**

WHEREAS, the purpose of proposed AS 41.23.240-41.23.270 is to protect, maintain, enhance, and perpetuate the present use of the area described as the Kodiak Narrow Cape Public Use Area; and

WHEREAS, the Kodiak Narrow Cape Public Use Area, if established, will:

1. protect, maintain, perpetuate, and enhance year-round general public recreation; and
2. protect, maintain, perpetuate, and enhance public enjoyment and use of fish and wild-life; and
3. allow additional public uses of the area in a manner compatible with the purposes specified in (1) and (2); and

WHEREAS, the Alaska Department of Natural Resources currently maintains control of State-owned land at Narrow Cape on Kodiak Island; and

WHEREAS, 2,486 Kodiak Island Borough residents signed a petition in 2005 that opposed closure of public access to state lands at Narrow Cape; and

WHEREAS, residents value the Narrow Cape area and there is a high level of interest in access to this important area being maintained; and

WHEREAS, the State of Alaska should retain ownership of this area and maintain the public use of the area's trails, beaches, and natural resources as a permanently designated public and recreational use area; and

WHEREAS, similarly, areas in Hatcher Pass and Nelchina regions have been designated public use areas by the Alaska State Legislature.

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Kodiak, Alaska, that the Alaska State Legislature designate the State-owned land on Narrow Cape as a permanent public use area administered by the Department of Natural Resources that prevents it from being sold or closed to public use.



CITY OF KODIAK

Carolyn Floyd

MAYOR

ATTEST:

Dulma Maslun

CITY CLERK

Adopted: March 29, 2007

Doug Letch

From: Hans-Ulrich Tschersich [REDACTED]
Sent: Thursday, March 15, 2007 12:29 PM
To: Sen. Gary Stevens
Subject: Re: HB 203/SB 111

Dear Senator Dr. Stevens,

I strongly support the provisions of SB 111, regarding the lands at Narrow Cape in Kodiak. I have hiked along the beautiful bluffs many times and enjoyed the interesting beach with the spectacular fossil cliffs. I led several hikes during the whale migration, an annual event enjoyed by many local residents and visitors to the island. It is very important to preserve this land for public use since it is one of the most popular recreational areas on the Kodiak road system.

Sincerely,

Hans Tschersich
Kodiak, Alaska

Get your own web address.
Have a HUGE year through Yahoo! Small Business.
<http://smallbusiness.yahoo.com/domains/?p=BESTDEAL>

Alaska State Public Opinion Message System:

Sen Gary Stevens's office

Filter applied is:

Messages About SB 111

There is 1 saved message about SB 111

[Save all messages about SB 111](#)[Delete all messages about SB 111](#)Sort messages by: [District](#) or [Date](#) or [Last Name](#) or [<Subject>](#)

Messages

Constituent/Non-Constituent	Saved/ Not Saved
Ralph Sirofchuck of Kodiak (36) wrote the following message On 4/20/2007 at 08:10 In support of <i>SB 111 KODIAK NARROW CAPE PUBLIC USE AREA</i>	

Message:

I live in Kodiak and recreate at Narrow Cape on an almost weekly basis. Please support the Narrow Cape Lands Bill. It is overwhelmingly supported in Kodiak. AADC supports it and ranchers in that area support it. It is an important recreational area for Kodiak residents and tourists.

Message was delivered by Pom

[View Case](#) [Delete case](#)**Contact Info:**

Ralph Sirofchuck
Po Box 970
Kodiak AK, 99615-0970
Work:907-481-2578
Home:486-6498
Email:v34@pci.net

[Go to Main Menu](#)[Go to Search Page](#)

SB

1 15

SFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: CSSB115(STA)-DOR-TAX-4-18-07

Bill Version: CSSB 115(STA)

() Publish Date: _____

Revision Date/Time (Note if correction): _____

Dept Affected: Revenue 04

Title Gift Cards

RDU Taxation and Treasury

Sponsor _____

Component Tax Division

Requester Senate State Affairs Committee

Component No. 2476

Requester Senate Affairs, Labor and Commerce

Expenditures/Revenues

(Thousands of Dollars)

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

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

CAPITAL EXPENDITURES						
-----------------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
-------------------------------	------------	------------	------------	------------	------------	------------

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type- Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2007) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached.

Prepared by: Rachel Lewis and Neils Tomlinson

Phone: (907) 465-5885

Division: Tax

Date/Time: 18 April 2007, 9 15

Approved by: Jerry Burnett

Date: 18 April 2007

Agency: Dept. of Revenue

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. CSSB 115(STA)

ANALYSIS CONTINUATION

Bill Language: This bill would redefine gift cards, using the new definition from AS 45.45.940. It would clarify that gift cards become unclaimed property after three years. It would remove expiration dates from gift cards. It would also add other conditions under which gift cards could be sold, and would make violating any of these conditions an unlawful trade practice.

Revenues: This bill will have no significant effect on revenue. Over the past 22 years, very little money from unclaimed gift cards has been turned over to the Department of Revenue's Unclaimed Property Unit, and a total of \$50,000 of that money has been deposited in the general fund in that period. The Department anticipates that in the future, contributions to the general fund from this source will continue close to the long-term average of approximately \$2,300 per year.

This bill may make businesses more aware of the need to turn over unclaimed gift cards to the Department. However, any increase in revenues to the general fund which might result is anticipated to be a small fraction of the current \$2,300 yearly average, and hence negligible.

Fines and forfeitures from unlawful trade practice enforcement related to gift cards are unknown.

Expenditures: It is not anticipated that this bill will result in any additional expenditures for the Department of Revenue. The current volume of unclaimed gift cards reported to the Unclaimed Property Unit is quite small, and the Department does not anticipate appreciable change in their workload stemming from this bill.

SENATE COMMITTEE REPORT

DATE: 3/23/07

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 4/12/07

Labor and Commerce Committee considered SENATE BILL NO. 115

SB 115 GIFT CARDS

"An Act relating to gift certificates and gift cards, and to unclaimed property; and making a violation of certain gift card prohibitions an unlawful trade practice."

and recommends:

- be replaced with SCS or CS _____ (_____)
- adopt previous SCS or CS SB 115 (STA)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:
 Same Title
 New Title

HOUSE BILL:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

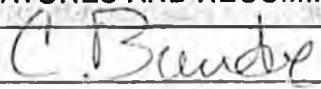


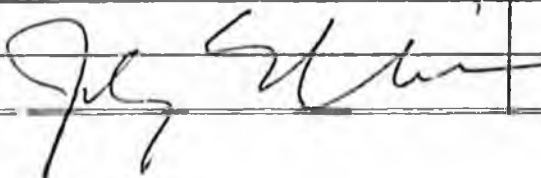
NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
REVENUE	3/23/07		✓		1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	Do PASS	Do NOT PASS	NO REC	AMEND
	Bundy			✓	
	DAVIS	x			
	STEWART			x	
CHAIR: 	ELLIS	x			

**SENATE COMMITTEE REPORT
First Committee of Referral**

DATE: 3/12/07

FURTHER: Labor and Commerce

Date of 5-Day Notice: 3/15/07
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 3/23/07

State Affairs Committee considered SENATE BILL NO. 115

SB 115 GIFT CARDS

"An Act relating to gift certificates and gift cards, and to unclaimed property; and making a violation of certain gift card prohibitions an unlawful trade practice."

and recommends:

- be replaced with SCS or CS SB 115 (STP)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:	
<input checked="" type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
<hr/>	
HOUSE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

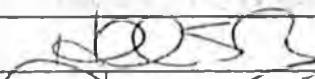

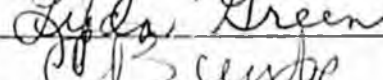


NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
REV	03/19		✓		1

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	French	x			
	Stevens			<input checked="" type="checkbox"/>	
	Green	✓			
	Kunde				
CHAIR: 	McGuire	✓			

SB

1 16

HFIN

FILE

FISCAL NOTE

STATE OF ALASKA
2007 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: CSSB 116(L&C)
(S) Publish Date: 4/4/07

Revision Date/Time (Note if correction): _____ Dept. Affected: Commerce
Title Uniform Money Services Act RDU Banking & Securities (536)
Component Banking & Securities
Sponsor Elton
Requester Senate Labor & Commerce Component No. 2808

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Personal Services	46.5	46.5	46.5	46.5	46.5	46.5
Travel	2.5	2.5	2.5	2.5	2.5	2.5
Contractual	28.0	28.0	28.0	28.0	28.0	28.0
Supplies	1.0	1.0	1.0	1.0	1.0	1.0
Equipment	2.0	2.0	2.0	2.0	2.0	2.0
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	80.0	80.0	80.0	80.0	80.0	80.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (1156)	80.0	80.0	80.0	80.0	80.0	80.0
------------------------------------	-------------	-------------	-------------	-------------	-------------	-------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipt's						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1156 Receipt Supported Services	80.0	80.0	80.0	80.0	80.0	80.0
TOTAL	80.0	80.0	80.0	80.0	80.0	80.0

Estimate of any current year (FY2007) cost: 0.0

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

POSITIONS

Full-time						
Part-time	1	1	1	1	1	1
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation would require the licensing and regulation of entities involved with the transmission of money or currency exchanges. The division estimates there will be about 40 businesses subject to licensure and examination each year under the bill. The division assumes that many of the money transmitter businesses operating in the state will be subject to dual licensure as they are affiliated with a large national money transmitter company, such as Western Union. Alaska currently does not regulate this industry. The division anticipates the need for the addition of one-half of a new Investigator II position to carry out regulatory duties mandated by the Act, such as, licensing, complaint investigations and conducting on-site examinations. Travel funds would cover cost of the travel associated with examinations and training. Contractual expenses include funds for the Department of Law to draft legal documents, represent the division at administrative hearings resulting from license revocations/disciplinary actions, and enforcement orders.

Prepared by: Mark Davis, Director
Division: Banking and Securities
Approved by: Emil Notti, Commissioner
Agency: Commerce, Community, and Economic Development

Phone 907.269.8144
Date/Time 3/26/07 12:59 PM
Date 3/26/2007

STATE OF ALASKA
2007 LEGISLATIVE SESSION

BILL NO. CSSB 116(L&C)

ANALYSIS CONTINUATION

Revenue: The division estimates this legislation would generate \$80.0 in each of the first two years due to the initial licensing of an estimated 40 licensees at \$2.0 per licensee. In years 3 and 4, it is estimated there will be an increase in the number of licensees from 40 to 50. In years 5 and 6, it is estimated there will be an increase in the number of licensees from 50 to 60. Because this legislation would require the department to establish fee levels so that the total amount of fees collected would approximately equal total regulatory costs, licensing fees would be expected to drop after the first two years.

5-12-07

adopted

Bannister
5/6/07

AMENDMENT |

By:
Meyer By Request
Chenault

OFFERED IN THE HOUSE

TO: CS SB 116 (FEN)

1 Page 16, following line 19:

2 Insert new subsections to read:

3 "(d) A money services licensee or an authorized delegate may not disclose to
4 another person financial information provided to the money services licensee or the
5 authorized delegate by a customer except when, and only to the extent that, the
6 disclosure is

7 (1) authorized in writing by the customer;

8 (2) required by federal, state, or local law;

9 (3) required by an order issued by a court or an administrative agency;

10 or

11 (4) part of the money services transaction ordered by the customer.

12 (e) In (d) of this section, "financial information" means an individual's social
13 security number, individual taxpayer identification number, account number, credit
14 card account number, debit card account number, personal identification number,
15 payment instrument number, or access code."



SENATOR KIM ELTON

SB 116 – Uniform Money Services Act

Sponsor Statement

SB 116 protects the public, strengthens the money services industry, and enhances law enforcement. It creates safety and soundness regulations for money transmitters and currency exchangers. The bill, suggested by the industry, is based on a model act by the National Conference of Commissioners on Uniform State Laws.

The bill guarantees consumers certain information when they buy a money transfer, gives them a place to make complaints, and ensures money Alaskans send will be delivered if a money services business (MSB) gets into financial trouble.

The bill establishes a two-tiered system of licenses. A money transmission license allows a person to both transmit money and exchange currency. A currency exchange license allows only currency exchange. License fees will cover the cost of regulation, and investigations will be funded by the industry, making the bill a net zero to the state.

The federal government identified MSBs as susceptible to use for money laundering and terrorist financing. The vast majority of MSBs are legitimate and work very hard to prevent criminals from using their businesses. The industry believes this basic regulation bill will prevent, and help law enforcement weed out, the rare exception.

I respectfully ask for your support.

May 12, 2007 - Saturday

9:00 am

SB 116-UNIFORM MONEY SERVICES ACT

Amendment 1

✓ Senator Elton/Jesse Kiehl, Staff

Teleconference

Ezra Levine, Money Transmitters Round Table

David-Landsman, National Money Transmitters Association

✓ Grant Callow, Commissioner, National Conference of Commissioners on
Uniform State Laws

Questions via Teleconference

✓ Roger Prince, Securities Examiner, Commerce

Handwritten notes:
No. 116-1
4/11/07
11:00 am

Committee Action on Legislation

COMMITTEE H. Finance
N. Thomas SECRETARY

DATE: 5-12-07
PAGE 1 OF 1

SHORT TITLE

CSSB 116 (FIN)

ACTION TAKEN ON LEGISLATION

- Moved Out of Cmte
- Moved CS () Out of Cmte
- Moved HCS (FIN) Out of Cmte
- Heard and Held
- Heard and Held; Assigned to Subcmte
- Scheduled but not Heard
- Failed to Move Out of Committee
- Waived Out of Committee

SHORT TITLE

ACTION TAKEN ON LEGISLATION

- Moved Out of Cmte
- Moved CS () Out of Cmte
- Moved HCS () Out of Cmte
- Heard and Held
- Heard and Held; Assigned to Subcmte
- Scheduled but not Heard
- Failed to Move Out of Committee
- Waived Out of Committee

SHORT TITLE

ACTION TAKEN ON LEGISLATION

- Moved Out of Cmte
- Moved CS () Out of Cmte
- Moved HCS () Out of Cmte
- Heard and Held
- Heard and Held; Assigned to Subcmte
- Scheduled but not Heard
- Failed to Move Out of Committee
- Waived Out of Committee

Adopted

Bannister
5/6/07

AMENDMENT |

By:
Meyer By Request
Chevalier

OFFERED IN THE HOUSE

TO: CS SB 116 (FEN)

- 1 Page 16, following line 19:
2 Insert new subsections to read:
3 "(d) A money services licensee or an authorized delegate may not disclose to
4 another person financial information provided to the money services licensee or the
5 authorized delegate by a customer except when, and only to the extent that, the
6 disclosure is
7 (1) authorized in writing by the customer;
8 (2) required by federal, state, or local law;
9 (3) required by an order issued by a court or an administrative agency;
10 or
11 (4) part of the money services transaction ordered by the customer.
12 (e) In (d) of this section, "financial information" means an individual's social
13 security number, individual taxpayer identification number, account number, credit
14 card account number, debit card account number, personal identification number,
15 payment instrument number, or access code."