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July 20, 1999

OUR FILE NUMBER
600,000-12

City of Valdez
North Slope Borough
Fairbanks North Star Borough
Municipality of Anchorage

WRITER'S DIRECT DIAL
213-430-7403

WRITER'S E-MAIL ADDRESS
lgibbs@omm.com

**Re: Alaska Gasline Port Authority - Federal Taxation
of Income and Tax Exempt Financing Eligibility**

Ladies and Gentlemen:

This letter summarizes our advice to you regarding (i) whether income received by the Alaska Gasline Port Authority (the "Authority") should be excluded from gross income of the Authority and thereby exempt from federal income tax under the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) the extent to which the costs of the Project (defined below) should qualify for financing with tax-exempt obligations pursuant to Section 103 of the Code.

Federal Taxation of Authority's Income.

We have advised you that any income received by the Authority from the sale of natural gas should not be subjected to federal income tax under either of two theories:

1. First, income received by the Authority should not be subject to federal income tax because the Authority should be treated as a political subdivision of the State of Alaska (the "State").
2. Alternatively, in the event that the Authority is not a political subdivision of the State, income received by the Authority should be excluded from gross income of the Authority under Section 115 of the Code because the Authority should be viewed as performing an essential governmental function and all of its income should accrue to parties that are themselves political subdivisions.

In providing the above advice, we have, with your express consent, relied upon the accuracy and completeness of the following facts and assumptions:

O'MELVENY & MYERS LLP

City of Valdez, July 20, 1999 - Page 2

a. The Authority will be established pursuant to the Municipal Port Authority Act, §§ 29.35.600 *et seq.* of the Alaska Statutes (the "Act") and the ordinances (the "Ordinances") passed or to be passed by City of Valdez, the Fairbanks North Star Borough, the North Slope Borough and the Municipality of Anchorage (the "Original Municipalities") as a body corporate and politic and an instrumentality for purposes of building and operating the facilities and infrastructure necessary to realize, for the benefit of the State, the Original Municipalities and other municipalities with the State, the economic potential of significant natural gas reserves located in that portion of the State known as the North Slope (the "Project"). The Original Municipalities and other municipalities believe that the realization of the economic value of the Project is vital to the continued economic health of the State, municipalities within the State and their respective citizens.

b. As provided under the Act, all members of the Port Authority will at all times be municipalities of the State.

c. The Authority has the power of eminent domain within its physical boundaries to acquire land or materials for Authority purposes. The Original Municipalities believe that utilization by the Authority of its eminent domain power will be or could be essential to completion of the Project.

d. All income, after payment of expenses, including any debt service, derived by the Authority will be divided among the State, the Original Municipalities and other municipalities within the State in accordance with the Ordinances for deposit in their respective general funds and used to pay the costs of government services. No portion of the income derived by the Authority will inure to the benefit of any private entity or individual, other than incidentally.

e. Upon dissolution, all of the assets of the Authority will be distributed to all the Original Municipalities and any other municipalities that have joined the Authority in proportion to their respective investments in the Authority at the time of dissolution, in accordance with the Act.

f. The members of the governing board of the Authority will all be appointed by the Original Municipalities.

Eligibility of the Project for Tax-Exempt Financing

We have advised you that the extent to which the costs of the Project may be financed with tax-exempt obligations depends primarily upon the form and content of the contractual arrangements between the Authority and the purchasers of the gas. For example, take-or-pay contracts will generally make those costs ineligible for tax-exempt financing. On the other hand, tax-exempt financing may be available if those contracts

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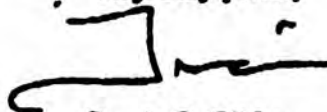
are in the nature of requirements contracts. We have also advised that it is important that the Authority pay fair market value to the current owners of the natural gas in order that those owners not be considered as deriving a special economic benefit from the Project. The analysis relating to the availability of tax-exempt financing will be further refined as additional relevant facts are developed.

We have further advised that certain of the costs of the Project may be eligible for tax-exempt financing notwithstanding the issues mentioned in the previous paragraph. First, we understand that a portion of the costs of the Project will be allocable to gas that will ultimately be sold to municipalities or municipally owned utilities for consumption with the State. Subject to a review of the basis on which that gas will be sold to the ultimate consumers, the costs properly allocable to such gas should be financeable on a tax-exempt basis.

Second, though tax-exempt bonds are generally not permitted where the financed facilities will be "used" by or will confer a benefit on private sector entities (unlike that benefit derived by the public at large), certain enumerated types of facilities, including "docks and wharves," may be financed on a tax-exempt basis notwithstanding such private sector "use" or receipt of benefits. We are currently making a preliminary assessment of whether any portion of the Project would qualify as "docks and wharves".

The advice presented in this letter is based on (i) our interpretation of the case law, provisions of the Code, Treasury regulations and administrative rulings and decisions of the Internal Revenue Service now in effect, all of which are subject to change subsequent to the date of this letter, and (ii) our review of the Act and Ordinances and the assumption that the Authority will at all times operate in accordance with the Act and the Ordinances. A detailed discussion of all of the relevant tax issues involved in determining whether the income of the Authority should be excluded from gross income and the availability of tax-exempt financing is contained in privileged memoranda provided to you separately and the advice provided herein is based on and subject to the discussion in such memoranda. Further, you should be aware that the advice of counsel is not binding on a court or the Internal Revenue Service.

Very truly yours,



Travis C. Gibbs
of O'MELVENY & MYERS LLP

TCG:mfn
LAJ:201313

**Alaska North Slope LNG Project
Statement for the House Special Committee on Oil and Gas
Concerning HB-170
(April 29, 1999)**

The sponsor group is pleased to continue the partnership with the state that was established over the past several years to advance gas commercialization. This partnership has manifested itself in a series of events by the State supporting gas commercialization. First was the original Memoranda of Understanding with the administration which documented the project bases to that point. Next, HJR-54, HR-1 were two legislative resolutions that both demonstrated general support and laid the ground work for later statutory modifications. In 1997, HB-250 called for a study and the development of proposed fiscal legislation. Last session, the state's efforts to provide state fiscal modifications culminated in HB-393, the Stranded Gas Development Act. These events represent a determined effort on the part of many in the legislature, administration and our sponsor group to commercialize North Slope gas. Further, through its individual companies, the sponsor group has long been working to bring a project to fruition.

It is understood that legislators are currently focused on the BP-Amoco/ARCO merger and want to know of any impact that it may have, if approved, on the sponsor group. Federal regulations restrict direct comments on the merger. But, fortunately, the answer to concerns about the sponsor group viability lies with the sponsor group itself. First, as stated in the past, the commercial structure that the sponsors are envisioning is for the sponsors to invest in the facilities, buy gas on the North Slope and sell LNG in the market place. Therefore, while the viability of the sponsor group is enhanced by participation from a gas owner, it does not depend upon investment by any North Slope gas owner. Second, the goal of the sponsor group is to develop a project that is economically attractive for investment. The chances for developing a project, which is acceptable to the market in terms of scale, scope and structure, are actually improved by the participation of a diverse group such as ours. The sponsor group includes North Slope gas owners, a world class pipeline company, a major Japanese trading company, a current Alaskan LNG project owner and a holder of major permits.

This group has wide ranging, major project experience. So, even though there are no assured outcomes, the sponsor group intends to continue on its current course, which we think gives the Alaska North Slope LNG project its best chances for success.

To reinforcement this commitment and focus, a letter was provided to the committee signed by each of the five sponsors demonstrating our alignment with and determination to develop a Market Viable Project concept and development plan.

To set the scene for our comments on HB-170, the sponsor group testified before the committee on February 22, 1999 concerning its work program. The essence of that testimony is that the sponsor group is executing a comprehensive plan to develop a market viable Alaska North Slope LNG Project. The vision is to achieve economic viability through cost reductions, federal and state fiscal modifications, and general risk reductions. The vision also includes finding a project size that can gain a foothold in the competitive Far East gas markets. Pipeline routings to Valdez and Cook Inlet and 5 LNG plant sites are currently being considered.

The sponsor group was formed with the objective to create an equity investment opportunity for the sponsors. That is, the plan is to own the facilities and make a profit on that investment. Federal tax modifications and state fiscal modifications as set forth in the Stranded Gas Development Act (HB-393) are seen as a way to cooperatively make this project economically competitive. Focusing on the state side, it is unclear how the concept for realizing a project under HB-170 correlates to the concept which was reflected in last year's HB-393. We hope that this matter will be made clearer as the bill is discussed.

Section 5 seems to be a critical part of HB-170. This section calls for a feasibility report on a project based upon state ownership/financing to forestall federal income taxes. It would appear that this report will require two studies: one on taxes and one on financing.

Addressing taxes, the state should conclusively deal with the question as to whether state ownership will exempt the enterprise from federal taxes. This question needs to be answered with

certainty for a project of this size to advance. It would appear that a comprehensive legal study by legal experts is needed in this regard. It might be particularly helpful to identify similar activities by other states as a way of benchmarking the idea of Alaskan ownership. This could also give the state insight as to mechanics of eliminating federal tax exposure.

Focusing next on the financial perspective, a thorough study of the state ownership concept will likely require significant expenditures by the state. For example, we would expect the study to cost substantially more than the nominal \$75,000 required for the Pedro Van Muers study in 1996. For the sake of discussion, we have visualized that the study will be conducted by an experienced banking institution with significant expertise in this area. Obviously, the selection of this institution should be done very carefully so that reliable recommendations can be achieved.

It is imperative that the assumptions for the financial study be carefully considered, especially relative to the financial community and the market place. For example, assumptions about pricing, rampup and project risks will significantly impact any economic conclusions and perceived financial risk. Also, the economic goal should be to become competitive over a range of economic conditions with the best greenfield LNG projects serving the East Asian market.

The financial study should examine a range of project configurations that dovetail with the sponsor group work. Naturally, what has previously been called the reference case, which is sized at 14 million tpy, will be included. But serious consideration should be given to the smaller cases being developed by the sponsor group.

Because of this, a critical input into the fiscal study will be the technical description for the cases. If the state financial study dovetails with the sponsor group work, we expect that this case information will be available for state consideration perhaps by fall of this year. Naturally, we will want to develop mutually acceptable arrangements for sharing information.

One of the most important aspects of the financial study should be testing the market feasibility of each case. One critical issue is whether the market has the capability to absorb the LNG at the rates estimated for each case. For example, our investigations to date have suggested that a 14 million ton per year case may be too large for an initial project. Project size needs to be continuously tested in the marketplace. In addition, investigations should be conducted as to whether the market would view state ownership/financing to forestall federal income taxes as favorable overall.

The financial study should address risk management; that is what will happen if events do not unfold as expected? For example, how would the state handle substantial cost overruns if they were to occur during construction? In addition, how will the state deal with a major drop in world energy prices and hence project revenues?

This is just a first cut at the major aspects for the tax and financial studies that should be considered in the state feasibility report. In some cases these issues are alluded to in HB-170 and in some cases the bill seems to be silent on them. Since this is a complex topic, the sponsor group would certainly offer ongoing assistance in refining these general comments. In this way, the state feasibility study can be dovetailed into the sponsor group's substantial work program.

There was a point that the sponsor group made in the February 22 testimony that bears repeating: commercial regulation will be an important sponsor group initiative starting later this year. Commercial Regulation is needed to establish a method by which export volumes will not be prorated and that cost allocations for instate gas will be fair. There is still a need for this, and the sponsor group looks forward to consideration of this by the state in due course. In addition, the sponsor group is working towards the development and submittal of an application under the Stranded Gas Development Act during our Stage 1 activities.

Finally, HB-170 seems to involve public policy issues that need to be addressed by the state prior to implementing the "Alaska Gas Corporation". It is assumed that these issues will be addressed as the bill is developed and no comments on them have been developed on them by the sponsors at this time.

To summarize, the sponsor group is fully aligned and committed to developing a market viable Alaska North Slope LNG Project as an investment opportunity. The group is proceeding as visualized in the Stranded Gas Development Act, but it has not ruled out other methods to achieving federal tax modifications. The group also stands ready to make arrangements to provide the information needed for the comprehensive feasibility studies called for by HB-170.

LEGAL SERVICES

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STATE OF ALASKA

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

130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

April 6, 1999

SUBJECT: Re North Slope gas: Would a requirement of sale of North Slope gas reserves compel commitment of the gas to transportation in a trans-Alaska gas pipeline? (Work Order No. 21-LS0349)

TO: Representative Jim Whitaker

FROM: Jack Chenoweth
Assistant Revisor of Statutes

Question considered: You have asked whether the production of North Slope gas in commercial quantities requires the lessees to commit the gas to a proposed trans-Alaska gas pipeline.

Response: I know of no legal requirement that, in order to meet an obligation to market North Slope gas, now requires a lessee to commit its production to transportation using the projected trans-Alaska gas pipeline. However, language in a state lease requiring that a lessee "exercise reasonable diligence in drilling, producing, and operating wells on the leased area" fairly requires that, if production and delivery of the gas become economically viable, the lessee must produce and market the gas or face the risk of a claim for breach of the implied duty to market, or, in the alternative, termination of the lease. At the same time, production and delivery of North Slope natural gas by pipeline becomes economically viable only if the gas is committed for sale in one or more markets outside Alaska, necessitating its transshipment out of the state.

There is a very close and very direct relationship between the eventuality of construction of the pipeline project and a commitment on the part of the lessees to commit to providing product to it for a protracted period. It is the commitment of the gas under a contract of sale and its in-state transportation for eventual out-of-state delivery that is the basis for the eventual financing of the construction of both the means of transportation of the gas--the pipeline--and the corresponding obligation to produce and market it. Thus, the logistics of delivering the product to its place of sale may compel the North Slope lessees to commit production, or a very substantial portion of it, to that transportation facility.

In summary, the obligation to market and the opportunity to develop and deliver Alaska's substantial natural gas reserves to domestic and international markets are opposite sides of the same coin. The production and delivery of North Slope natural gas becomes possible

Representative Jim Whitaker

April 6, 1999

Page 2

only if the lessees commit the product under long-term contracts sufficient to determine pipeline capacity and to meet construction costs.

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LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
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STATE OF ALASKA

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130 Seward Street, Suite 409
Juneau, Alaska 99801-2105

MEMORANDUM

March 22, 1999

SUBJECT: Exemption of the income or earnings of the proposed Alaska Gas Corporation from federal income taxation (Work Order No. 21-LS0694\A)

TO: Representative Jim Whitaker

FROM: Jack Chenoweth
Assistant Revisor of Statutes

QUESTION PRESENTED: You have inquired as to whether the proposed Alaska Gas Corporation, to be established by law as a public corporation, may be structured so that the earnings or income from its activities will not be subject to taxation under the federal income tax, 26 U.S.C.¹

SHORT ANSWER: The Internal Revenue Code provides that income derived from a public utility or from the exercise of any essential government function is exempt from federal income taxation if the income accrues to a state or a political subdivision of a state. I am of the view that the activities contemplated by the proposed Alaska Gas Corporation would not

¹ Your transmittal memo noted that income of the Alaska Permanent Fund Corporation, Alaska Railroad Corporation, and Alaska Housing Finance Corporation is not subject to federal tax.

The income of the Railroad Corporation enjoys an explicit exemption from federal income taxation under 45 U.S.C. 1207(a)(6)(A). I assume that the Internal Revenue Service views the Alaska Housing Finance Corporation as simply a device (in the form of a corporation) that performs a function, improvement of housing opportunity, that constitutes an essential government function, not unlike that performed in all other states, and refrains from asserting that the corporation's net income may be subject to taxation.

More problematical is the IRS's treatment of the income earned by the Alaska Permanent Fund. However, so long as the Permanent Fund Corporation undertakes to do what the state itself would otherwise perform directly for itself, investment of "surplus" revenue, with the earnings accruing generally to the state, the IRS should continue to avoid asserting that the corporation's income is subject to tax.

As to these each of these three, if their activities begin to involve them in substantial "private" activities or in activities that do not constitute essential functions of government, the exclusion from federal income taxation of at least part of the earnings of the respective corporation may be lost.

qualify the corporation as a public utility.² Thus, the requirements of the test really must concentrate on meeting the remaining two standards: the exemption from taxation applies

-- if the activity involves an essential government function; and

-- if the corporation's income accrues to the state.

To the extent the Alaska Gas Corporation acts to manage state assets, its activities arguably should qualify the corporation as something that performs an essential government function, leaving its earnings exempt from taxation under the Internal Revenue Code. However, exclusion of the income from federal income taxation is not entirely free from doubt. There are various reasons the Internal Revenue Service might decide that the earnings or income of the corporation may be taxed.

In addition, due to the so-called "accrual" requirement, the drafting of the legislation must ensure that the corporation's activities meet the minimum requirements that attach to this state's having a claim on some portion of the corporation's income.

If both requirements cannot be met, exclusion of income from taxation would be foregone. It may be necessary for the state to ask the Congress for a specific tax exemption (as has been previously provided for the Alaska Railroad Corporation).

DISCUSSION: The Internal Revenue Code, 26 U.S.C., provides for the levy and collection of taxes on individuals, corporations, and others. States, political subdivisions of states, and some of their instrumentalities have been treated by the Internal Revenue Service as not subject to the tax provisions of the Code. Income earned by states and political subdivisions has escaped federal income taxation. However, when states and political subdivisions establish wholly-owned corporations (and similar entities) to conduct or engage in public activities, unless there is a specific provision maintaining the corporation's tax-exempt status, the corporation's earnings *may* be subject to federal income taxation.

The principal Code provision applicable to the income earned by states and their political subdivisions is 26 U.S.C. 115(1), the relevant portion of which reads:

Gross income does not include --

(1) income derived from any public utility or the exercise of any essential governmental function and accruing to a state or any political subdivision thereof.

....;

Courts have applied 26 U.S.C. 115(1) to determine the tax status of entities other than states and their political subdivisions. *City of Bethel v. United States*, 594 F.2d 1301 (9th Cir. 1979), cert. denied, 444 U.S. 980, 62 L.Ed.2d 407 (1979) (Ninth Circuit applied 26 U.S.C.

² The proposed Alaska Gas Corporation may not qualify as a public utility because its services would not be held out to be generally available to all or a substantial portion of the public, but rather are intended to aid *the state* in the marketing of its resources.

115(1) to evaluate asserted exemption from taxation of income of liquor store corporation that was wholly-owned by the city).

In taking the measure of whether the income of a public corporation is or is not tax exempt, the Internal Revenue Service concerns itself, first, with whether or not the income earned follows from "the exercise of [an] essential governmental function" and, second, whether the income generated by the entity engaged in the activity accrues to the state. Both parts of the test must be met if, under the application of 26 U.S.C. 115(1), the income is to escape federal income taxation.

I

There are cases on each side that consider whether the performance of a particular service qualifies as an "essential governmental function." For example, operation of the Port of New York Authority by the states of New York and New Jersey, designed to construct and operate transportation facilities on behalf of the two states, qualifies as an "essential government function" under an early New Jersey state court opinion.³ On the other hand, for purposes of determining federal tax liability, a public university's operation of a commercial television station does not qualify.⁴ The significant distinguishing characteristic may well be whether the particular service qualifies because of a duty imposed under the state's own constitution or, in the absence of a constitutional obligation, because it is either a function or duty arising in conjunction with the administration of government (e.g. investment of surplus revenues, a principal responsibility of the Alaska Permanent Fund Corporation) or with the exercise of a sovereign power of the state affecting the public. What does seem clear is that, in order to avoid a claim that the service does not qualify as an "essential government function," the service provided may not yield any more than an incidental benefit to one or more private parties, on the theory that a service does not qualify as an "essential government function" if it is done for the particular benefit of less than substantially all of the public.

II

26 U.S.C. 115(1) allows an exemption only if the corporation's income actually "accrues" to the state--that is, so long as it is received or transferred to the state.⁵ It is not enough that, in this instance, the state have the control of the corporation.⁶ The test appears to be whether

³ Miller v. Port of New York Authority, 15 A.2d 262, 266 (N.J. 1939).

⁴ Iowa State University of Science and Technology v. United States, 500 F.2d 508 (Ct. Cl., 1974).

⁵ Under the earlier-cited City of Bethel decision, the Ninth Circuit disallowed tax exempt treatment of the income of the city-owned liquor store's because the arrangement between the city and the corporation did not require a distribution of profits to the municipality.

⁶ Bear Gulch Water Co. v. Commissioner of Internal Revenue, 116 F.2d 975 (9th Cir. 1941), cert. denied 314 U.S. 652, 62 S.Ct. 99 (1941) (a corporation's retained earnings do not (continued...))

Representative Jim Whitaker
March 22, 1999
Page 4

or not the state has reserved to itself a right or enforceable claim to the corporation's net income. So, for example, in the City of Bethel decision, cited earlier, the Ninth Circuit noted that the city could have met the requirement by requiring the liquor store corporation's trustees to distribute the corporation's profit under a clause of the articles of incorporation: "The balance, if any, of all money received by the corporation from the operations of its liquor store, after the payment in full of all debts and obligations of the corporation of whatever kind or nature, shall be distributed exclusively to the [c]ity . . . for use in promotion of the general welfare of the [c]ity and its inhabitants." 594 F.2d at 1303, n. 6. The court declared that "[i]f the income had been transferred to Bethel coffers and the expended to finance [the city liquor store's] operations, a different result might follow Instead, the income was retained [by the city liquor store corporation] . . . [and] Bethel's financial records [did not] reflect any right to receive [the] income"

I can only suggest that, as it considers the proposed Alaska Gas Corporation, the legislature give careful consideration to each of the following points:

-- the legislation should try to avoid situations involving a commitment or involvement of the corporation's earnings in activities giving anything more than incidental benefit to one or more private parties, for providing that kind of treatment might come to be viewed and treated by the Internal Revenue Service as unrelated business income not excludable from taxation under the "essential governmental function" language of 26 U.S.C. 115(1);

-- the legislation should include some means that, as the Ninth Circuit related in City of Bethel, requires a distribution of net income (after provision for payments of debts and for reserves for obligations) to the state for deposit into the state treasury.

If compliance with one or both of these proves detrimental to achieving the stated purposes of the legislation, you may want to ask Congress to provide an express tax exemption.

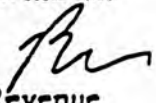
If this memo prompts questions, please contact me.

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"(...continued)

accrue to a government entity for purposes of sec. 115(a) even though the corporation's stock is wholly owned by the government entity).

To: Representative Whitaker

From: Roger Marks 
Department of Revenue

Date: March 3, 1999

Re: North Slope Gas

At the request of Representative Whitaker, we examined the possibility of state ownership of the North Slope natural gas pipeline project. This would entail the following:

- Purchase of gas from the Prudhoe Bay working interest owners for 50 cents per thousand cubic feet (mcf) in Year 1999 dollars, increasing at 3 percent per year. This amount could represent either a firm 50 cents, or a firm spread between the market price of gas in the Far East and the wellhead purchase price.
- Tax-free financing of 100% of the capital and operating costs of the conditioning plant, pipeline, LNG terminal, and ships, at 6% interest, with payment beginning in the first year of LNG delivery over 30 years. Whether such financing is probable needs to be further confirmed.
- No state or federal taxes.
- State sale of the gas in the Far East.

The State's revenues would be the sale price of the gas. The State's expenses would be the purchase price of the gas and the debt service, including the principal and interest on the capital and operating costs.

The pipeline project was modeled similarly to the modeling procedure we used in the 1997 Report to the Governor. Essentially, 2 billion cubic feet per day (14 million tons per year) is sold after a 5-year ramp-up, starting in 2007. The total project cost is \$12 billion in 1999 dollars with a price of gas in the Far East of \$3.50 per million btu (mmbtu) in 1999 dollars.

We have modeled the total net cash flow to the State after expenses, at three different prices of LNG in the Far East: a \$3.50/mmbtu base case, a low case of \$2.50/mmbtu, and a high case \$4.50/mmbtu.

LNG prices in the Far East are structured to follow oil prices, except that there are ceilings and floors at high and low prices. This is called an "S-curve." A price of \$3.50 represents ANS oil at about \$17/bbl. A price of \$2.50 represents current conditions, about \$10/bbl ANS. A price of \$4.50 would represent ANS at about \$22/bbl.

The following table shows the net cash flow to the State at selected years and gas prices, with a 50-cent purchase price. By way of comparison, a project where the North Slope producers own the entire project coupled with the current fiscal system, notwithstanding the sub-market returns generated to the project sponsors, would yield about \$300 million to the State and local municipalities in the peak year.

**Net Cash Flow to State
North Slope Gas
(\$millions)**

Year	\$2.50	\$3.50	\$4.50
2007	\$51	\$209	\$367
2010	\$224	\$914	\$1,604
2015	\$389	\$1,589	\$2,789
2020	\$451	\$1,842	\$3,233
2025	\$523	\$2,135	\$3,748
2030	\$606	\$2,476	\$4,345
2035	\$702	\$2,870	\$5,037

1-LS0694\H
Chenoweth✓
4/23/99

CS FOR HOUSE BILL NO. 170()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): HOUSE SPECIAL COMMITTEE ON OIL AND GAS

A BILL

FOR AN ACT ENTITLED

1 "An Act establishing the Alaska Gas Corporation, a public corporation, and
2 providing for its structure, management, responsibilities, and operation."

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

4 * Section 1. FINDINGS AND INTENT. (a) The legislature finds that

5 (1) art. VIII, sec. 1, Constitution of the State of Alaska, provides that it is the
6 policy of the state to encourage the settlement of its land and the development of its resources
7 by making them available for maximum use consistent with the public interest;

8 (2) art. VIII, sec. 2, Constitution of the State of Alaska, requires the legislature
9 to provide for the utilization, development, and conservation of all natural resources belonging
10 to the state, including land and waters, for the maximum benefit of its people;

11 (3) the production of oil and gas from state land is an important source of
12 revenue to the state and job opportunities for all the people of the state;

13 (4) natural gas located on the North Slope is a valuable resource to the state
14 that has not been produced for sale in the market place;

1 (5) the amount of natural gas located on the North Slope is substantial and, if
2 sold, will generate significant revenue to the state and opportunities and benefits to its people
3 for many years into the future;

4 (6) maximum benefit to the people of the State of Alaska by the sale of North
5 Slope natural gas may be realized only through public ownership of a corporate entity that
6 provides the essential government function of use of this natural resource by accruing to the
7 state all net income;

8 (7) state revenue allocated to the state's municipalities is declining and a
9 natural gas pipeline project will significantly increase revenue sharing with municipalities; and

10 (8) failure to produce and sell the natural gas resource located in the state for
11 the maximum benefit of its people is in direct conflict with the provisions of the Constitution
12 of the State of Alaska.

13 (b) The intent of this Act is to

14 (1) provide the people of the state the maximum benefit possible through
15 extraction of natural resources as required by the Constitution of the State of Alaska;

16 (2) foster and promote the long-term economic growth and development of the
17 state;

18 (3) recognize that the production, ownership, and sale of natural gas is in the
19 long-term and maximum best interest of the citizens of the state;

20 (4) establish a means by which the state can bring North Slope natural gas
21 resources to market;

22 (5) create a public corporation with the powers, duties, and functions necessary
23 to facilitate the acquisition and sale of North Slope natural gas;

24 (6) require the corporation to contract with private sector entities for the
25 following services and functions in order to bring natural gas from the North Slope to market:

26 (A) the acquisition of North Slope natural gas;

27 (B) the conditioning of North Slope natural gas as required for
28 shipment through the Trans Alaska Gas Pipeline System;

29 (C) the design and construction of the Trans Alaska Gas Pipeline
30 System;

31 (D) the operation and maintenance of the Trans Alaska Gas Pipeline

1 System;

2 (E) the design and construction of a tidewater liquefaction facility;

3 (F) the operation and maintenance of a tidewater liquefaction facility;

4 (G) the operation of a sea transportation system; and

5 (H) the access and acquisition of natural gas market share sufficient to
6 ensure the long-term feasibility of the project; and

7 (7) provide for allocation to all municipalities of 25 percent of the profit
8 generated by the Alaska Gas Corporation from the operation of the pipeline and other
9 activities of the corporation.

10 * Sec. 2. AS 41 is amended by adding a new chapter to read:

11 **Chapter 41. Alaska Gas Corporation.**

12 **Article 1. Establishment of the Corporation.**

13 **Sec. 41.41.010. Establishment of the corporation.** (a) There is established
14 the Alaska Gas Corporation, the purpose of which is to provide one or more of the
15 following public services and functions in order to bring natural gas from the North
16 Slope to market:

17 (1) the acquisition of North Slope natural gas;

18 (2) the conditioning of North Slope natural gas as required for shipment
19 through the Trans Alaska Gas Pipeline System;

20 (3) the design and construction of the Trans Alaska Gas Pipeline
21 System;

22 (4) the operation and maintenance of the Trans Alaska Gas Pipeline
23 System;

24 (5) the design and construction of a tidewater liquefaction facility for
25 natural gas;

26 (6) the operation and maintenance of a tidewater liquefaction facility
27 for natural gas;

28 (7) the operation of a sea transportation system for natural gas; and

29 (8) the access and acquisition of natural gas market share sufficient to
30 ensure the long-term feasibility of the Trans Alaska Gas Pipeline System project.

31 (b) The corporation is a public corporation and an instrumentality of the state

1 within the Department of Revenue.

2 (c) The corporation has a legal existence independent of and separate from the
3 state.

4 (d) The acquisition of natural gas from the North Slope and the other activities
5 set out in (a) of this section undertaken by the Alaska Gas Corporation are essential
6 governmental functions of the state.

7 (e) The corporation may not be terminated as long as it has bonds, notes, or
8 other obligations outstanding.

9 **Sec. 41.41.020. Corporation governing body.** (a) The corporation shall be
10 governed by a board of directors consisting of the following seven members:

11 (1) the commissioner of natural resources;

12 (2) the commissioner of revenue; and

13 (3) five members appointed by the governor from the public, who may
14 not hold another state or federal office, position, or employment, either elective or
15 appointive, except as a member of the armed forces of either the United States or this
16 state.

17 (b) Of the five public members of the board,

18 (1) two members must have recognized competence and wide
19 experience in finance and business management;

20 (2) two members must have recognized competence and wide
21 experience in gas industry-related endeavors; and

22 (3) one member must have recognized competence and wide experience
23 in Alaska environmental issues.

24 (c) The board shall annually elect a chair, and may elect other officers, from
25 among its members.

26 **Sec. 41.41.030. Term of office.** The public members of the board shall be
27 appointed for terms of four years, and they may be reappointed. The terms of the
28 public members shall be staggered so that the terms of no more than two public
29 members expire each year.

30 **Sec. 41.41.040. Removal and vacancies.** (a) The governor may remove a
31 member of the board from office. A removal by the governor must be in writing and

1 must state the reason for the removal. A member who is removed by the governor
2 may not participate in board business and may not be counted for purposes of
3 establishing a quorum after the member receives written notice of removal from the
4 governor. A member who is removed by the governor is not entitled to honoraria, per
5 diem, or travel expenses authorized under AS 44.41.060 for work performed after the
6 member receives the written notice of renewal.

7 (b) The governor shall promptly fill a vacancy on the board by appointment.
8 An appointee to a vacancy shall hold office for the balance of the term for which the
9 appointee's predecessor on the board was appointed.

10 (c) A vacancy on the board does not impair the authority of a quorum of the
11 board to exercise all the powers and perform all the duties of the board.

12 **Sec. 41.41.050. Quorum and voting.** Four members of the board constitute
13 a quorum for the transaction of business and the exercise of the powers and duties of
14 the board. Action may be taken only upon the affirmative vote of a majority of the
15 full membership of the board.

16 **Sec. 41.41.060. Compensation of board members; per diem and travel**
17 **expenses.** (a) Public members of the board receive an honorarium of \$400 for each
18 day spent at a meeting of the board or at a meeting of a subcommittee of the board
19 or at a public meeting as a representative of the board.

20 (b) Members of the board are entitled to per diem and travel expenses
21 authorized for boards and commissions under AS 39.20.180.

22 **Sec. 41.41.070. General powers.** In addition to the exercise of other powers
23 authorized by law, the corporation may

- 24 (1) adopt a seal;
25 (2) adopt bylaws governing the business of the corporation;
26 (3) sue and be sued;
27 (4) appoint trustees and agents of the corporation and prescribe their
28 powers and duties;
29 (5) make contracts and execute instruments necessary or convenient in
30 the exercise of its powers and duties;
31 (6) maintain an office at any location in the state;

(7) acquire by purchase, lease, bequest, devise, gift, exchange, the satisfaction of debts, the foreclosure of mortgages, or otherwise, personal property, rights, rights-of-way, franchises, easements, and other interests in land, and acquire by appropriation water rights that are located in the state, taking title to the property in the name of the corporation;

(8) hold, maintain, use, operate, improve, lease, exchange, donate, convey, alienate, encumber, or otherwise grant a security interest in, or authorize use or dispose of, land or personal property, subject to other provisions of this chapter;

(9) contract with and accept transfers, gifts, grants, or loans of funds or property from the United States and the state or its political subdivisions, subject to other provisions of federal or state law or municipal ordinances;

(10) undertake and provide for the management, operation, maintenance, use, and control of all the property of the corporation;

(11) recommend to the legislature and the governor any tax, financing, or financial arrangement the corporation considers appropriate for expansion or extension and operation of the corporation;

(12) enter into contracts, leases, and other agreements with other businesses or persons concerning the services, activities, operations, property, and facilities of the corporation, including services specified in AS 41.41.010;

(13) enter into agreements with a state agency or other instrumentality of the state; and

(14) do all things necessary or desirable to carry out the powers and duties of the corporation granted or necessarily implied in the chapter or other laws of the state or the laws or regulations of the federal government.

Sec. 41.41.080. Corporation staff. (a) The board may employ and determine the salary of an executive director.

(b) The executive director may, with the approval of the board, select and employ additional staff as necessary.

(c) An employee of the corporation, including the executive director, may not be a member of the board. The executive director and the other employees of the board are in the exempt service under AS 39.25.110.

(d) In addition to its employees, the corporation may contract for and engage the services of bond counsel, consultants, experts, and financial advisors the corporation considers necessary for the purpose of developing information, furnishing advice, or conducting studies, investigations, hearings, or other proceedings.

Sec. 41.41.090. Legal counsel. (a) The attorney general

(1) is the legal counsel for the corporation;

(2) shall advise the corporation in legal matters; and

(3) shall represent the corporation in legal actions.

(b) Notwithstanding (a) of this section, the board of directors may, at its own discretion, seek and obtain the services of independent legal counsel.

Sec. 41.41.100. Conflicts of interest. (a) Members of the board and the executive director of the corporation are subject to the provisions of AS 39.50.

(b) If a member of the board or an employee of the corporation acquires, owns, or controls an interest, direct or indirect, in an entity or project in which assets of the corporation are invested, the member shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the board meeting next following the disclosure.

Sec. 41.41.110. Corporation budget. (a) The revenue earned by corporate operations must be identified as the source of the operating budget of the corporation in the state's operating budget under AS 37.07 (Executive Budget Act).

(b) Earnings of the corporation in excess of bond debt payments and future operating needs shall accrue and be transferred to the state general fund once each year, not later than January 15, after the first full year of operation.

Sec. 41.41.120. Audits. The Legislative Budget and Audit Committee may provide for an annual post audit and annual operational and performance evaluations of the corporation's operations and budget.

Sec. 41.41.130. Reports and publications. (a) By September 30 of each year, the board shall publish a report of the corporation for distribution to the governor and the public. The board shall notify the legislature that the report is available.

(b) The report must include financial statements audited by independent outside auditors and a statement of the amount of money received by the corporation

1 from its operations during the period covered.

2 **Sec. 41.41.140. Tax exemption.** (a) The corporation and its operations and
3 the earnings on them are exempt from all taxes and assessments in the state.

4 (b) All bond and security instruments issued by the corporation, their transfer,
5 and their income are exempt from all taxes and assessments in the state.

6 **Sec. 41.41.150. Political activities.** The resources of the corporation may not
7 be used to finance or influence political activities.

8 **Sec. 41.41.160. Public access to information.** (a) Information in the
9 possession of the corporation is a public record, except that information that discloses
10 the particulars of the business or affairs of a private enterprise or investor is
11 confidential and is not a public record for purposes of AS 09.25.110 - 09.25.140.
12 Confidential information may be disclosed only for the purposes of an official law
13 enforcement investigation or when its production is required in a court proceeding.

14 (b) The restrictions of (a) of this section do not prohibit the publication of
15 statistics presented in a manner that prevents the identification of particular reports,
16 items, persons, or enterprises.

17 **Article 2. Bonds and Notes.**

18 **Sec. 41.41.200. Bonds and notes of the corporation.** (a) The corporation,
19 by resolution, may issue revenue bonds and bond anticipation notes in order to provide
20 funds to carry out the purposes set out in AS 41.41.010(a).

21 (b) The principal and interest on the revenue bonds or notes authorized and
22 issued under (a) of this section are payable from corporation funds. Bond anticipation
23 notes may be payable from the proceeds of the sale of bonds or from the proceeds of
24 the sale of other bond anticipation notes or, in the event bond or bond anticipation note
25 proceeds are not available, the notes may be paid from other funds or assets of the
26 corporation.

27 (c) Bonds or notes may be additionally secured by a pledge of a grant or
28 contribution from the federal government, or a corporation, association, institution, or
29 person, or a pledge of money, income, or revenues of the corporation from any source.

30 (d) Bonds or bond anticipation notes of the corporation may be issued in one
31 or more series and shall be dated, bear interest at the rate or rates per year or within

1 the maximum rate, be in the denomination, be registered, carry the conversion or
2 registration provisions, have the rank or priority, be executed in the manner and form,
3 be payable at the times, from the sources, and in the medium of payment and place
4 or places within or outside the state, be subject to authentication by a trustee or fiscal
5 agent, and be subject to the terms of redemption with or without premium, as the
6 resolution of the corporation may provide. Bond anticipation notes shall mature at the
7 time or times that are determined by the corporation. Bonds shall mature at a time not
8 exceeding a number of years from their date that is determined by the corporation.
9 Before the preparation of definitive bonds or bond anticipation notes, the corporation
10 may issue interim receipts or temporary bonds or bond anticipation notes,
11 exchangeable for bonds or bond anticipation notes when these definitive bonds or bond
12 anticipation notes have been executed and are available for delivery.

13 (e) Bonds or bond anticipation notes may be sold in the manner and on the
14 terms the corporation determines.

15 (f) If an officer whose signature or a facsimile of whose signature appears on
16 a bond or note ceases to be an officer before the delivery of the bond or note, the
17 signature or facsimile is valid the same as if the officer had remained in office until
18 delivery.

19 **Sec. 41.41.210. Covenants.** (a) In a resolution of the corporation authorizing
20 or relating to the issuance of bonds or bond anticipation notes, the corporation has
21 power by provisions in the resolution that will constitute covenants of the corporation
22 and contracts with the holders of the bonds or bond anticipation notes to

23 (1) pledge to a payment or purpose all or a part of its revenues to
24 which its right then exists or may thereafter come into existence, and the money
25 derived from the revenues, and the proceeds of bonds or notes;

26 (2) covenant as to the use and disposition of payments of principal or
27 interest received by the corporation on loans or other investments held by the
28 corporation;

29 (3) covenant as to establishment of reserves or sinking funds and the
30 making of provision for and the regulation and disposition of the reserves or sinking
31 funds;

1 (4) covenant with respect to or against limitations on a right to sell or
2 otherwise dispose of property of any kind;

3 (5) covenant as to bonds and notes to be issued, and their limitations,
4 terms, and conditions, and as to the custody, application, and disposition of the
5 proceeds of the bonds and notes;

6 (6) covenant as to the issuance of additional bonds or notes, or as to
7 limitations on the issuance of additional bonds or notes and the incurring of other
8 debts;

9 (7) covenant as to the payment of the principal of or interest on the
10 bonds or notes, as to the sources and methods of the payment, as to the rank or
11 priority of the bonds or notes with respect to a lien or security, or as to the
12 acceleration of the maturity of the bonds or notes;

13 (8) provide for the replacement of lost, stolen, destroyed, or mutilated
14 bonds or notes;

15 (9) covenant as to the redemption of bonds or notes and privileges of
16 their exchange for other bonds or notes of the corporation;

17 (10) covenant to create or authorize the creation of special funds of
18 money to be held in pledge or otherwise for operating expenses, payment or
19 redemption of bonds or notes, reserves, or other purposes;

20 (11) establish the procedure, if any, by which the terms of a contract
21 or covenant with or for the benefit of the holders of bonds or notes may be amended
22 or abrogated, the amount of bonds or notes the holders of which must consent to
23 amendment or abrogation, and the manner in which the consent may be given;

24 (12) covenant as to the custody of property or investments, their
25 safekeeping and insurance, and the use and disposition of insurance money;

26 (13) agree with a corporate trustee that may be a trust company or bank
27 having the powers of a trust company within or outside the state as to the pledging or
28 assigning of revenue or funds to which or in which the corporation has rights or an
29 interest; the agreement may further provide for other rights and remedies exercisable
30 by the trustee as may be proper for the protection of the holders of a bond or note of
31 the corporation and not otherwise in violation of law and may provide for the

1 restriction of the rights of an individual holder of bonds or notes of the corporation;

2 (14) appoint and provide for the duties and obligations of a paying
3 agent or paying agents or other fiduciaries as the resolution may provide within or
4 outside the state;

5 (15) limit the rights of the holders of a bond or note to enforce a
6 pledge or covenant securing the bonds or notes;

7 (16) make covenants other than and in addition to the covenants
8 expressly authorized in this section of like or different character, and to make
9 covenants to do or refrain from doing acts and things as may be necessary or
10 convenient and desirable in order to better secure bonds or notes or that, in the
11 absolute discretion of the corporation, will tend to make bonds or notes more
12 marketable, notwithstanding that the covenants, acts, or things may not be enumerated
13 in this section.

14 **Sec. 41.41.220. Limitations of issuance of bonds.** (a) The corporation may
15 not issue bonds in an amount that exceeds the amount of bonds authorized to be issued
16 by the legislature.

17 (b) This section does not apply to the issuance by the corporation of refunding
18 bonds or to the issuance by the corporation of bonds the proceeds of which are
19 intended to be used to refinance the loans held by the corporation.

20 **Sec. 41.41.230. Independent financial advisor.** In negotiating the private sale
21 of bonds or bond anticipation notes to an underwriter, the corporation may, at its
22 discretion, retain a financial advisor. A financial advisor retained under this section
23 must be independent from the underwriter.

24 **Sec. 41.41.240. Validity of pledge.** (a) The pledge of assets or revenue of
25 the corporation to the payment of the principal or interest on an obligation of the
26 corporation is valid and binding from the time the pledge is made, and the assets or
27 revenue are immediately subject to the lien of the pledge without physical delivery or
28 further act. The lien of a pledge is valid and binding against all parties having claims
29 in tort, contract, or otherwise against the corporation, irrespective of whether those
30 parties have notice of the lien of the pledge.

31 (b) This section does not prohibit the corporation from selling assets subject

1 to a pledge, except that a sale may be restricted by the trust agreement or resolution
2 providing for the issuance of the obligations.

3 Sec. 41.41.250. **Capital reserve funds.** (a) For the purpose of securing one
4 or more issues of its obligations, the corporation may establish one or more special
5 funds, called "capital reserve funds," and shall pay into those capital reserve funds (1)
6 money appropriated and made available by the state for the purpose of those funds, (2)
7 proceeds of the sale of its obligations, to the extent provided in the resolution or
8 resolutions of the corporation authorizing their issuance, and (3) other money that may
9 be made available to the corporation for the purposes of those funds from another
10 source. All money held in a capital reserve fund, except as provided in this section,
11 shall be used as required solely for the payment of the principal of obligations or of
12 the sinking fund payments with respect to those obligations; the purchase or
13 redemption of obligations; the payment of interest on obligations; or the payment of
14 a redemption premium required to be paid when those obligations are redeemed before
15 maturity. However, money in a fund may not be withdrawn from that fund at any
16 time in an amount that would reduce the amount of that fund to less than the capital
17 reserve requirement set out in (b) of this section, except for the purpose of making,
18 with respect to those obligations, payment, when due, of principal, interest, redemption
19 premiums, and the sinking fund payments for the payment of which other money of
20 the corporation is not available. Income or interest earned by, or increment to, a
21 capital reserve fund due to the investment of the fund or other amounts in it may be
22 transferred by the corporation to other funds or accounts of the corporation to the
23 extent that the transfer does not reduce the amount of the capital reserve fund below
24 the capital reserve fund requirement.

25 (b) If the corporation decides to issue obligations secured by a capital reserve
26 fund, the obligations may not be issued if the amount in the capital reserve fund is less
27 than a percent, not exceeding 10 percent of the principal amount of all of those
28 obligations secured by that capital reserve fund then to be issued and then outstanding
29 in accordance with their terms, as may be established by resolution of the corporation,
30 called the "capital reserve fund requirement," unless the corporation, at the time of
31 issuance of the obligations, deposits in the capital reserve fund from the proceeds of

1 the obligations to be issued or from other sources an amount that, together with the
2 amount then in the fund, will not be less than the capital reserve fund requirement.

3 (c) In computing the amount of a capital reserve fund for the purpose of this
4 section, securities in which all or a portion of the funds are invested shall be valued
5 at par or, if purchased at less than par, at amortized costs as the term is defined by
6 resolution of the corporation authorizing the issue of the obligations or by some other
7 reasonable method established by the corporation by resolution. Valuation on a
8 particular date must include the amount of interest earned or accrued to that date.

9 (d) To assure the continued operation and solvency of the corporation for the
10 carrying out of its corporate purposes, provision is made in (a) of this section for the
11 accumulation in capital reserve funds of an amount equal to their capital reserve fund
12 requirement.

13 (e) The chair of the corporation shall annually, no later than January 2, make
14 and deliver to the governor and chairs of the house and senate finance committees a
15 certificate stating the sum, if any, required to restore a capital reserve fund to the
16 capital reserve fund requirement. The legislature may appropriate that sum, and all
17 sums appropriated during the current fiscal year by the legislature for the restoration
18 shall be deposited by the corporation in the appropriate capital reserve fund.

19 (f) Nothing in this section creates a debt or liability of the state.

20 **Sec. 41.41.260. Remedies.** A holder of obligations issued under the provisions
21 of this chapter, and a trustee under a trust agreement or resolution authorizing the
22 issuance of the obligations, except as restricted by a trust agreement or resolution,
23 either at law or in equity, may enforce all rights granted hereunder or under the trust
24 agreement or resolution, or under another contract executed by the corporation under
25 this chapter, and may enforce and compel the performance of all duties required by
26 this chapter or by the trust agreement or resolution to be performed by the corporation
27 or by an officer of it.

28 **Sec. 41.41.270. Negotiable instruments.** All obligations are negotiable
29 instruments under the laws of this state, subject only to applicable provisions for
30 registration.

31 **Sec. 41.41.280. Obligations eligible for investment.** Obligations issued under

1 the provisions of this chapter are securities in which all public officers and public
2 bodies of the state and its political subdivisions, all insurance companies, trust
3 companies, banking associations, investment companies, executors, administrators,
4 trustees, and other fiduciaries may properly and legally invest funds, including capital
5 in their control or belonging to them. These obligations may be deposited with a state
6 or municipal officer of an agency or political subdivision of the state for a purpose for
7 which the deposit of bonds, notes, or obligations of the state is authorized by law.

8 **Sec. 41.41.290. Refunding bonds.** (a) The corporation may provide for the
9 issuance of refunding bonds for the purpose of refunding an obligation then
10 outstanding that have been issued under the provisions of this chapter, including the
11 payment of redemption premium on them and interest accrued or to accrue to the date
12 of redemption of the obligations. The issuance of the bonds, the maturities and other
13 details of them, the rights of the holders of them, and the rights, duties, and obligations
14 of the corporation in respect of them are governed by the provisions of this chapter
15 that relate to the issuance of obligations insofar as those provisions may be
16 appropriate.

17 (b) Refunding bonds may be sold or exchanged for outstanding bonds issued
18 under this chapter, and, if sold, the proceeds may be applied, in addition to another
19 authorized purpose, to the purchase, redemption, or payment of the outstanding
20 obligations. Pending the application of the proceeds of refunding bonds, with any
21 other available funds, to the payment of the principal, accrued interest, and redemption
22 premium on the obligations being refunded, and, if so provided or permitted in the
23 resolution authorizing the issuance of the refunding bonds or in the trust agreement
24 securing them, to the payment of any interest on the refunding bonds and expenses in
25 connection with the refunding, the proceeds may be invested in direct obligations of,
26 or obligations the principal of and the interest on which are unconditionally guaranteed
27 by, the United States that mature or that will be subject to redemption, at the option
28 of the holders of them, not later than the respective dates when the proceeds, together
29 with the interest accruing on them, will be required for the purposes intended.

30 **Sec. 41.41.300. Credit of state not pledged.** (a) Obligations issued under
31 the provisions of this chapter do not constitute a debt, liability, or obligation of the

1 state or of a political subdivision of the state or a pledge of the faith and credit of the
2 state or of a political subdivision of the state but are payable solely from the revenue
3 or assets of the corporation. Each obligation issued under this chapter must contain
4 on its face a statement that the corporation is not obligated to pay it or the interest on
5 it except from the revenue or assets of the corporation and that neither the faith and
6 credit nor the taxing power of the state or of a political subdivision of the state is
7 pledged to the payment of the principal of or the interest on the obligation.

8 (b) Expenses incurred by the corporation in carrying out the provisions of this
9 chapter are payable from funds provided under this chapter, and liability may not be
10 incurred by the corporation in excess of these funds.

11 **Sec. 41.41.310. Officers not liable.** A member or other officer of the
12 corporation is not subject to personal liability or accountability by reason of having
13 executed or issued an obligation.

14 **Article 3. Property of the Corporation.**

15 **Sec. 41.41.350. Property of the corporation.** The corporation may acquire,
16 by purchase, lease, or gift, upon terms that it considers proper, land, structures, real
17 or personal property rights, rights-of-way, franchises, easements, and other interests in
18 land it considers necessary or convenient for the financing of the project or a part of
19 the project.

20 **Article 4. General Provisions.**

21 **Sec. 41.41.900. Tax exemption.** (a) The exercise of the powers granted by
22 this chapter will be in all respects for the benefit of the people of the state, for their
23 well-being and prosperity, and for the improvement of their social and economic
24 conditions. The corporation is not required to pay a tax or assessment on property
25 owned by the corporation under the provisions of this chapter or on the income from
26 it.

27 (b) All obligations issued under this chapter are declared to be issued by a
28 body corporate and public of the state and for an essential public and governmental
29 purpose, and the obligations, and the interest and income on and from the obligations,
30 and all fees, charges, funds, revenues, income, and other money pledged or available
31 to pay or secure the payment of the obligations, or interest on the obligations, are

1 exempt from state taxation except for transfer, inheritance, and estate taxes.

2 **Sec. 41.41.990. Definitions.** In this chapter,

3 (1) "board" means the board of directors of the Alaska Gas
4 Corporation;

5 (2) "corporation" means the Alaska Gas Corporation;

6 (3) "obligations" means bonds, notes, or other obligations issued to
7 evidence borrowings of the corporation;

8 (4) "project" means the gas transmission pipeline, together with all
9 related property and facilities, to extend from the Prudhoe Bay area on the North Slope
10 of Alaska to tidewater at a point on Prince William Sound and includes planning,
11 design, and construction of the pipeline and facilities as described in
12 AS 41.41.010(a)(1) - (6).

13 * **Sec. 3.** AS 39.25.110(11) is amended by adding a new subparagraph to read:

14 (G) Alaska Gas Corporation;

15 * **Sec. 4.** AS 39.50.200(b) is amended by adding a new paragraph to read:

16 (56) the board of directors and executive director of the Alaska Gas
17 Corporation (AS 41.41.020).

18 * **Sec. 5. DEVELOPMENT OF PROJECT PLAN.** (a) The House Special Committee on
19 Oil and Gas of the Twenty-First Alaska State Legislature shall submit a report to the governor,
20 the speaker of the house, and the president of the senate no later than the first day of the First
21 Regular Session of the Twenty-Second Alaska State Legislature based on conclusions drawn
22 by qualified engineering, consulting, and other entities considered appropriate as to whether
23 the construction and operation of a natural gas transmission pipeline project, as defined in
24 AS 41.41.990, added by sec. 2 of this Act, using a public corporation is feasible.

25 (b) The feasibility study must be a general description of the requirements and current
26 status of the requirements set out in (a) of this section with respect to gas supply, engineering,
27 technical, financial, regulatory, and market access matters relating to the project. In addition,
28 the plan must include the following specific items and findings and recommendations on each
29 item:

30 (1) the proposed methods and procedures by which the project will be
31 financed, including the amounts and times of issuance of bonds by the corporation;

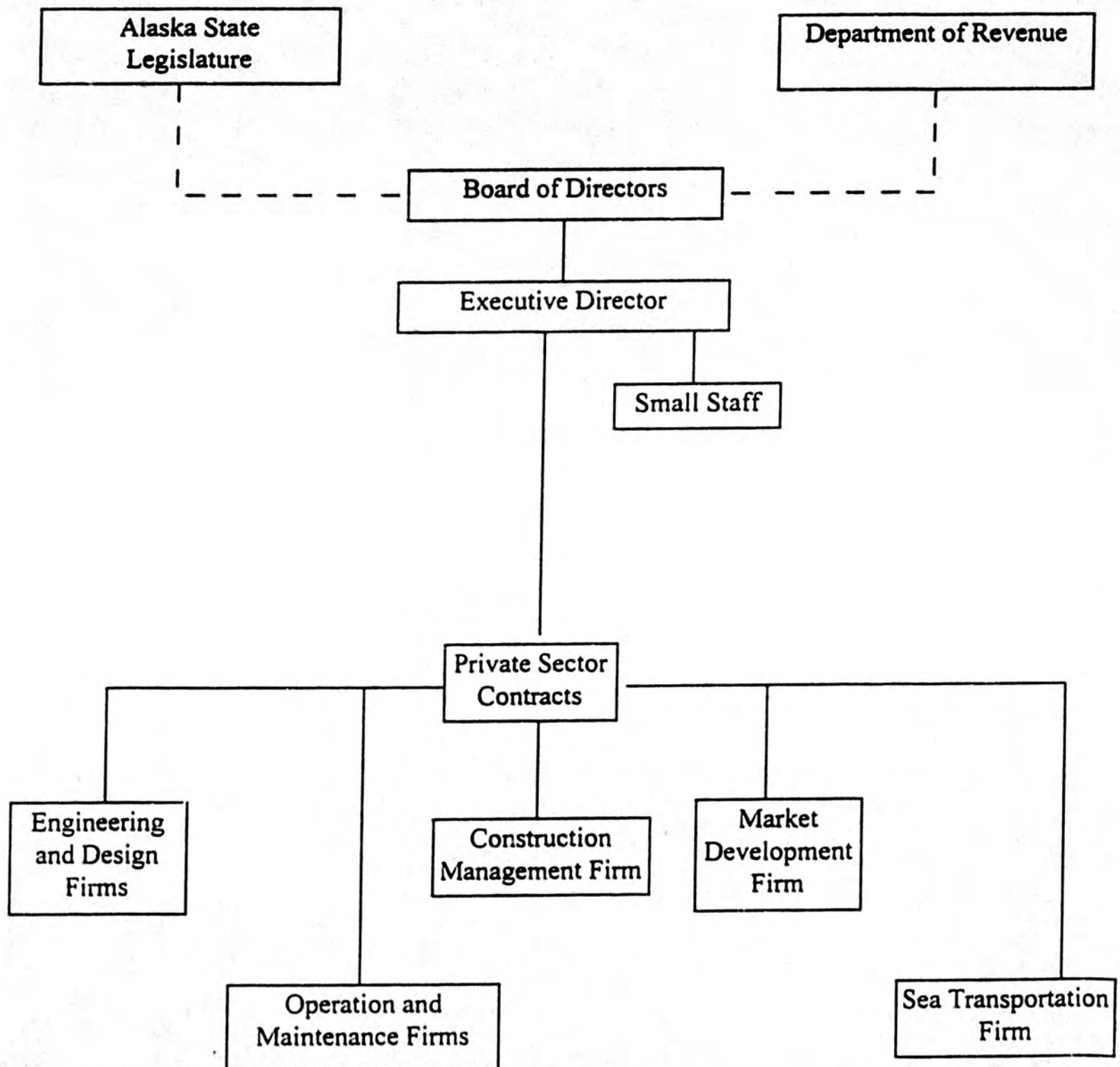
- 1 (2) the method of securing the bonds;
2 (3) projected debt service requirements of the bonds;
3 (4) projected revenues, for the period of time during which reasonable
4 projections can be made, that will be available to the corporation to meet debt service
5 requirement;
6 (5) documentation that contractors have undertaken
7 (A) to use their best efforts to advertise for, recruit, and employ
8 qualified residents of the state;
9 (B) to subcontract with existing licensed Alaska firms within the state
10 and, in subcontracting with those firms, to encourage the contractors to employ and,
11 when necessary, train existing state residents;
12 (C) to enter into contracts with Alaska-licensed vendors, contractors,
13 and suppliers for the provision of supplies and services; and
14 (D) to conduct quarterly audits of the performance of the contractors
15 under (A) - (C) of this paragraph and to report the results of these audits to the
16 legislature and other interested state officials in a timely manner;
17 (6) the estimated number of Alaska workers who will be employed under the
18 provisions of (5) of this subsection, the estimated total number of workers to be employed on
19 the project during construction, the estimated dollar volume of contracts that will be let to
20 Alaska contractors or firms under the provisions of (5) of this subsection, and the estimated
21 total dollar volume of contracts that will be let for the project during construction; and
22 (7) documentation that the necessary documents and exhibits have been filed
23 before the appropriate federal regulatory agencies.

24 * Sec. 6. INITIAL APPOINTMENTS OF MEMBERS OF ALASKA GAS
25 CORPORATION BOARD OF DIRECTORS. Of the public members first appointed under
26 AS 41.41.020(a)(3) and (b), enacted by sec. 2 of this Act,

- 27 (1) two members shall be appointed to a four-year term;
28 (2) one member shall be appointed to a three-year term;
29 (3) one member shall be appointed to a two-year term; and
30 (4) one member shall be appointed to a one-year term.

Draft

Alaska Gas Corporation Organizational Chart



Alaska State Legislature

House of Representatives



Official Business

State Capitol
Juneau, AK. 99801-1182

Representative Jim Whitaker

*State Capitol, Room 13
(907) 465-3004*

January 19, 1999

David Lawrence, Alaska North Slope LNG Project, Chairman
C/o Arco Alaska, Inc.
PO Box 100360
Anchorage, AK 99510-0360

Dear Mr. Lawrence:

As you are aware, the 1999 legislative session is now underway. As chairman of the Oil and Gas Committee, I have scheduled a few informational and organizational meetings during the month of February. These briefings will allow the committee members to discuss legislation passed by the committee last session, determine progress made in the interim and receive answers to questions they may have concerning the oil and gas industries. Please allow this letter to serve as an invitation for you to address the Oil and Gas Committee on Tuesday, February 23, 1999 at 10am in Room 17. Specifically, I am requesting an update from the Sponsor Group regarding the status of the Alaska North Slope LNG Project. Please contact Shannon Grynkeiwich, Oil and Gas Committee Aide, at 465-2283 to confirm your attendance. I look forward to working with you and your staff during the session as we address important oil and gas issues facing the state of Alaska.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Whitaker", with a long horizontal flourish extending to the right.

Representative Jim Whitaker
Oil & Gas Committee, Chairman

Cc: George Findling, Arco Alaska
Arne Holhjem, Phillips Petroleum Co.
Terry Cameron, Foothills Pipe Line Co.
Makato Ito, Marubeni Corporation
Jeff Lowenfels, Yukon-Pacific

JW:sjg

Alaska State Legislature

House of Representatives



Official Business

State Capitol
Juneau, AK. 99801-1182

Representative Jim Whitaker

*State Capitol, Room 13
(907) 465-3004*

January 26, 1999

Jeff Lowenfels
Yukon-Pacific Corp.
1049 W. 5th Avenue
Anchorage, AK 99501

Dear Mr. Lowenfels:

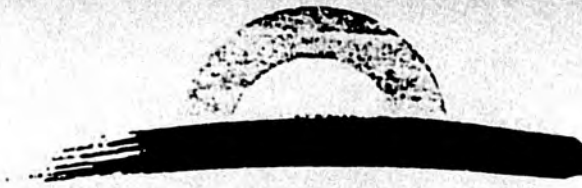
As Chairman of the Special Committee on Oil and Gas, I am interested in reviewing information pertaining to the Trans-Alaska Gas System. I would like to request any materials you may have concerning permits you hold for this project, as well as timelines or engineering work which would indicate the earliest possible completion date. Thank you very much for your time and attention to this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Whitaker".

Representative Jim Whitaker
Oil and Gas Committee Chairman

JW:sjg



ALASKA NORTH SLOPE LNG PROJECT

700 G Street, PO Box 100360, Anchorage, AK 99510-0360, Phone: (907) 265-6876, Fax: (907) 265-6838

February 8, 1999

Representative Whitaker
Alaska State Legislature
State Capitol, Room 13
Juneau, AK 99801-1182

Dear Representative Whitaker:

Thank you for your letter of January 19th inviting the Alaska North Slope LNG Project to address the House Oil and Gas Committee. I am delighted to accept your invitation on behalf of the Project and we look forward to briefing the committee on February 23rd starting at 10am in Room 17.

For your information the briefing will be given by the Project's two managers, namely Mr. John Miller, Engineering Manager and Mr. Steve Alleman, Commercial Manager.

For logistical details, please continue to work with Mr. George Findling. (907-263-4174)

Yours sincerely,

David M. Lawrence
Chairman

cc: Sponsor Board Representatives

ARCO Alaska, Inc.
Post Office Box 100360
Anchorage Alaska 99510-0360
Telephone 907 276 1215



David M. Lawrence
Gas Commercialization and Marketing Manager
Prudhoe Bay Field

February 18, 1999

Representative Jim Whitaker
Alaska State Legislature
State Capitol (MS3100)
Juneau, AK 99801-1182

Dear Representative Whitaker:

This letter is to further respond to the question raised at the February 4, 1999 House Oil and Gas Hearing about ARCO's overall gas commercialization plans. The question posed to us was whether ARCO's interest in the Tangguh project in Irian Jaya, Indonesia is detracting from our efforts on the Alaska North Slope LNG project. Our answer is unequivocally no. ARCO was instrumental in forming the Sponsor Group to progress the ANS LNG project and we are fully committed to funding our 37% share of the \$20 million Stage 1 program. ARCO has eight people dedicated, full time to North Slope gas commercialization as well as others in part time support. No other ANS gas owner can match the human and financial resources we have dedicated to progressing the Alaskan LNG project.

Clearly, ARCO would like both the Tangguh and North Slope projects to succeed. They are part of our long term vision to be a major, LNG player in the East Asian market in the next century. Tangguh is widely seen as one of the most attractive new LNG projects, and it was highly ranked in a 1997 study by the State's consultant, Pedro Van Miers. ARCO has long been planning for Tangguh's early entry into the market. It is hoped that this, in turn, will give ARCO more credibility in competing for market share for the Alaskan LNG project for the expected demand growth in the 2007+ time period.

At this time, the task is to make the Alaskan project economically competitive with the best expansion and greenfield LNG projects worldwide, as well as other energy forms such as coal, nuclear, etc. This is no small matter, considering that other LNG projects do not have the burden of an 800 mile gas pipeline. But ARCO has been leading the development of the Alaska North Slope LNG project through an innovative and comprehensive technical and commercial program with our sponsor team: ARCO, Hothills Pipelines, Marubeni, Phillips and CSX/YPC.

We have a long journey ahead of us to realize an LNG project in Alaska. But, despite the current historically low oil prices and the very difficult economic conditions in the market, we remain committed to moving our program forward together with the sponsors.

Sincerely,

David M. Lawrence
Manager, Gas Commercialization & Marketing

cc: Members of the House Special Committee on Oil & Gas

Alaska State Legislature

Representative Jim Whitaker

House Special Committee on Oil and Gas, Chairman

House Resources Committee

House Health, Education, and Social Services
Committee

House State Affairs Committee

House Special Committee on Fisheries



House of Representatives
District 31

Session:

State Capitol, Room 13
Juneau, Alaska 99801-1182
Phone: (907) 465-3004
Fax: (907) 465-2070

Interim:

119 N. Cushman St. Suite 213
Fairbanks, Alaska 99701
Phone: (907) 452-1088
Fax: (907) 452-1146

February 24, 1999

Mr. Jeff Lowenfels, President
Yukon Pacific Corporation
1049 W. 5th Avenue
Anchorage, AK 99501

Dear Mr. Lowenfels:

Testimony before the Alaska State Legislature's Oil and Gas Committee given by John Miller on behalf of the Alaska North Slope LNG Project Sponsor Group is in direct conflict with the Yukon Pacific TAGS permits white paper. Your white paper was provided to my office in response to my correspondence dated January 26, 1999. The white paper indicated that, "YPC has constructed a portfolio of twelve permits which represent a very significant portion of the efforts necessary to permit a North Slope Natural gas export project." Mr. Miller's testimony indicated otherwise.

I am not going to beat around the bush; either the white paper is incorrect and/or misstated, or Mr. Miller has misinterpreted its meaning and importance. This conflict puts the Oil and Gas Committee in a position wherein all testimony and/or correspondence from the Sponsor Group and its members is suspect. If the credibility of the Sponsor Group and its members before the Oil and Gas Committee is to be re-established, it is necessary that this issue be clarified.

Please respond at your earliest convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Whitaker", with a stylized flourish at the end.

Jim Whitaker
Oil and Gas Committee, Chairman

JW:sjg



**YUKON
PACIFIC
CORPORATION**
TRANS-ALASKA GAS SYSTEM

March 4, 1999

The Honorable Jim Whitaker
House of Representatives
State of Alaska
State Capitol
Room 13
Juneau, AK 99801

Dear Representative Whitaker:

We appreciate and share the concern expressed in your letter of February 24, 1999. Mr. Miller's responses to questions regarding "permitting" a world-scale Alaska LNG export project — a critical and complex area "pioneered" by Yukon Pacific Corporation over many years and at great expense — were uninformed and unfortunate. Even so, we sympathize with and understand how these kinds of offhand comments are sometimes made during the course of public testimony, particularly during such a free-ranging exchange of questions and views as occurred after Mr. Miller's and Mr. Alleman's formal testimony. Except for the troubling replies to permitting issues, we thought the balance of the presentation provided by those representing the Sponsor Group was otherwise excellent, informative and helpful.

We have reviewed the language contained in our TAGS Permits White Paper and stand by it. We are also fully prepared to present testimony to your committee if necessary (although we hope it is not) to elaborate on the issues raised in the White Paper, and to answer all questions as forthrightly and candidly as possible.

As a member of the Sponsor Group we are aware of the need to allow sufficient time for other members of the group to become familiar and comfortable with the significance and relevance of our many years of work. In the meantime, however, we had hoped to avoid the very discord that has now occurred. Nevertheless, we sincerely believe that once all of the other Sponsor Group members have had time to evaluate the importance and implications of the major permits we have diligently secured over the past 12 years, they will come to the common view that if a North Slope-sourced LNG export project is to proceed on *any kind of meaningful and predictable schedule* it will do so because the very permits described in our White Paper (and, taken together, *only those* permits) provide that opportunity.

Sincerely,

Wayne F. Lewis
Vice President

Alaska State Legislature

Representative Jim Whitaker

House Special Committee on Oil and Gas, Chairman
House Resources Committee
House Health, Education, and Social Services
Committee
House State Affairs Committee
House Special Committee on Fisheries



House of Representatives
District 31

Session:
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March 30, 1999

Mr. David Lawrence
ANS LNG Project, Chairman
P.O. Box 100360
Anchorage, AK 99510-0360

Dear Mr. Lawrence:

On Tuesday, March 16, 1999, I met with four members of the ANS LNG Sponsor Group. It was a cordial meeting. Our discussion focussed on two issues:

- 1) The sponsor group presentation before the House Oil and Gas Committee of February 23, 1999, and
- 2) Pending legislation regarding the creation of the Alaska Gas Corporation.

Discussion point number one was simply an assessment of the sponsor group presentation. We agreed that the presentation was an opportunity for an open and frank discussion. We further agreed that while terse, the exchanges involved no animus, and were generally fruitful.

Discussion point two was initiated by me in an effort to provide the sponsor group with the best and most timely information possible regarding an issue which may directly effect the effort of the sponsor group. I also wanted to provide the sponsor group the earliest opportunity to participate and to take advantage of the inherent additional opportunities provided by this approach to commercialization of North Slope gas. The meeting ended with me asking the question: "may I characterize this meeting as having been an open and positive discussion?" Steve Allemen readily agreed to that being a fair characterization.

The purpose of this letter is to inform you personally of the discussions of the meeting of March 16, 1999, and to again reiterate my offer to the sponsor group to participate with the State as we bring this project to fruition.

I'm not going to waste time playing with semantics. The legislature has a constitutional imperative under Article VIII, sections 1 and 2 to utilize the State's resources for the maximum benefit to its people. Additionally, the legislature is faced with a budget imperative of significant proportion. North Slope gas provides an avenue to successfully meet the requirements of both imperatives. The Alaska State Legislature has no choice; we must and will bring this commodity to market. Again, I invite the sponsor group to participate and hopefully benefit from this endeavor. Please respond at your earliest convenience

Sincerely,

A handwritten signature in black ink, appearing to read "J. Whitaker", with a stylized flourish extending to the right.

Jim Whitaker
Oil and Gas Committee, Chairman

Cc:
Mr. Arne Holhjem, Phillips Petroleum Company
Mr. Terry Cameron, Foothills Pipe Line Co.
Mr. Makato Ito, Marubeni Corporation
Mr. Jeff Lowenfels, CSX Corporation

JW:rpc

Alaska State Legislature

House of Representatives



Official Business

State Capitol
Juneau, AK. 99801-1182

March 31, 1999

Mr. David Lawrence
ANS LNG Project
PO Box 100360
Anchorage, AK 99510-0360

Dear Mr. Lawrence:

Enclosed for your review is House Bill 170, relating to the formation of the Alaska Gas Corporation. The legislation contains the following provisions:

- Establishes the Alaska Gas Corporation;
- Specifies that the responsibility of the corporation is to bring North Slope natural gas to market;
- Requires the Alaska Gas Corporation to contract with private businesses for construction and maintenance of a natural gas pipeline, gas conditioning facility, liquification facility, and liquid natural gas sea transportation system; and
- Requires a report to be presented to the legislature by January 2001, concerning gas supply, engineering, technical, financial, regulatory, and market access matters relating to the feasibility of this project.

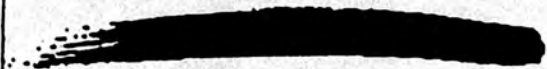
I welcome your comments on the proposed legislation and look forward to working with you as we continue to develop the means necessary to secure a natural gasline project for the State of Alaska. If you have any questions, please do not hesitate to contact my office.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Whitaker".

Jim Whitaker
Oil and Gas Committee, Chairman

Enclosure
JW:sjg



ALASKA NORTH SLOPE LNG PROJECT

700 G Street, PO Box 190340, Anchorage, AK 99510-0340, Phone: (907) 263-6676, Fax: (907) 263-6831

April 9, 1999

Representative Jim Whitaker
Alaska State Legislature
House of Representatives District 31
State Capitol, Room 13
Juneau, AK 99801

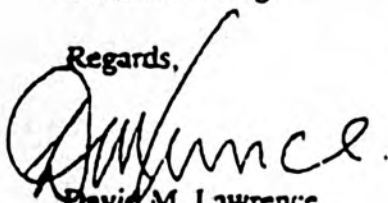
Dear Representative Whitaker:

Thank you for your letter of March 30, 1999. I am responding on behalf of the ANS LNG Project members.

We have read your letter with interest and also read the proposed legislation you are considering regarding "the Alaska Gas Corporation". Needless to say both of these documents have raised a great many questions within our group. We are currently reviewing HB 170 and hope to be in a position shortly to respond with our thoughts.

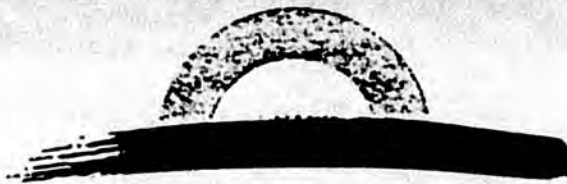
With this in mind, we would like to invite you to meet with us in our Project Office here in Anchorage to update you on our work and to discuss HB 170. I shall ask a representative from the Team to work with your staff to set up a mutually acceptable time for this meeting.

Regards,



David M. Lawrence
Chairman

cc: Sponsor Board



ALASKA NORTH SLOPE LNG PROJECT

700 G Street, PO Box 100360, Anchorage, AK 99510-0360, Phone: (907) 265-6876, Fax: (907) 265-6838

April 20, 1999

Representative Jim Whitaker
Alaska State Legislature
House of Representatives District 31
State Capitol, Room 13
Juneau, AK 99801

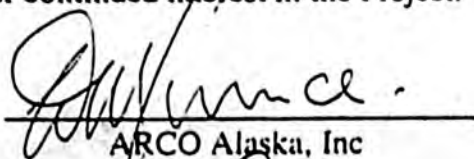
Dear Representative Whitaker:

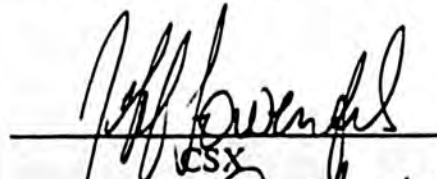
The Alaska North Slope LNG Project Sponsor Board is writing in response to your letter of March 30, 1999, which references the presentation made by our group to the House Special Oil and Gas Committee on February 23, 1999.

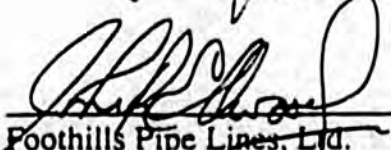
Firstly, the Board would like to reiterate that the primary objective of the ANS LNG Project Team is to establish the most cost effective and viable project possible that is acceptable to the market, recognizing that the market will ultimately determine the scale and timing of any project.

Secondly, with that objective in mind, we wish to assure the Committee that the five sponsor companies are fully aligned in all respects in the direction of our work. Most importantly all our companies agree that we shall need to be creative and innovative in all aspects of our work to first establish a viable project. Our reviews of the market have shown that our reference plan for a large project of 14 mmtpa capacity could be very difficult for the market to accept in a reasonable time frame. Our work programs are therefore evolving to also investigate the so called "MVP" (Market Viable Project) which is designed to define the smallest project that can gain a foothold in the competitive Far East gas markets. We wish to emphasize that our investigations are not being driven by any particular pipeline route, plant site or project scope, nor by previous work by any of the Project members companies. If any prior work is determined to lead to the best solution then it will be used, otherwise entirely new options will be investigated.

It is very important for the credibility of Alaska's gas commercialization efforts that all Project Team members and the State of Alaska speak with one voice. It is the intent of the Project to proceed in this manner and to continue to work with the State as we move forward. Thank you for your continued interest in the Project.


ARCO Alaska, Inc


CSX


Foothills Pipe Lines, Ltd.


Marubeni Corporation


Phillips Petroleum

Alaska State Legislature

Representative Jim Whitaker

House Special Committee on Oil and Gas, Chairman

House Resources Committee

House Health, Education, and Social Services
Committee

House State Affairs Committee

House Special Committee on Fisheries



House of Representatives
District 31

April 28, 1999

Session:

State Capitol, Room 13

Juneau, Alaska 99801-1132

Phone: (907) 465-3004

Fax: (907) 465-2070

Interim:

119 N. Cushman St. Suite 213

Fairbanks, Alaska 99701

Phone: (907) 452-1088

Fax: (907) 452-1146

Mr. David Lawrence
ANS LNG Project, Chairman
700 G Street
PO Box 100360
Anchorage, AK 99510-0360

Dear Mr. Lawrence:

The time has come to provide you with my straight forward assessment of the Alaska North Slope LNG Project Sponsor Group, and the role it is playing in relation to the state's effort to commercialize North Slope gas.

Your group's efforts appear to be in response to HB 393, enacted by the Twentieth Alaska State Legislature. However, your group has not yet taken definitive steps pertinent to HB 393, therefore, it appears to be at a preliminary stage of feasibility development. I sincerely wish you luck as you proceed and offer my assistance as you pursue this endeavor. However, it must be further noted that I remain very concerned and somewhat skeptical in light of the fact that certain sponsors do possess competing gas properties around the world. It must, therefore, be assumed that market entry decisions will be made which will best serve the needs and interests of the individual sponsors and not the State of Alaska.

The state has an obligation to pursue all options available, and to that end, two courses of action are being pursued independently of your group:

1. Other interested parties have been contacted with regard to North Slope gas opportunities in the hope that an additional sponsor group or groups will participate in the commercialization of North Slope gas; and
2. House Bill 170 has been introduced which, as you know, pertains to the formation of the Alaska Gas Corporation; a wholly owned state entity.

I must also take exception to the last paragraph of your letter dated April 20, 1999. The State of Alaska should and must speak for itself until it is in its best interest to do otherwise. It is my opinion that we are not at that point in time or circumstance.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Whitaker", with a long horizontal stroke extending to the right.

Jim Whitaker
Oil and Gas Committee, Chairman

Cc: Oil and Gas Committee Members
Arne Holhjem, Phillips Petroleum Company
Terry Cameron, Foothills Pipe Line Company
Makato Ito, Marubeni Corporation
Jeff Lowenfels, Yukon Pacific
Jim Eason, ANS LNG Sponsor Group

JW:sjs

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 170(), Draft Version "H"

1 Page 1, line 2, following "operation":

2 Insert "; and establishing state programs of assistance to municipalities affected
3 by the construction and operation of the Trans Alaska gas pipeline and related facilities"

4 Page 3, following line 9:

5 Insert a new bill section to read:

6 "* Sec. 2. AS 29.60 is amended by adding new sections to read:

7 **Article 9. Sharing Profit of the Alaska Gas Corporation with Municipalities.**

8 **Sec. 29.60.660. Profit sharing with municipalities.** Subject to appropriation
9 for the purpose, the department shall annually distribute 25 percent of the annual
10 profit of the Alaska Gas Corporation to municipalities as follows:

11 (1) the department shall compute for a municipality in which is located
12 real or personal property that is exempt from taxation by the municipality under
13 AS 41.41.900(a) a payment in lieu of tax; the payment in lieu of tax is computed by
14 multiplying the original cost of the construction or acquisition of the exempt real or
15 personal property in that municipality, adjusted annually for any subsequent
16 expenditures made for that property, by the property tax rate applied to other property
17 subject to tax within the municipality; the adjustment for expenditures under this
18 paragraph may not include expenditures incurred for maintenance of the property;

19 (2) after computation of a total amount payable to municipalities under
20 (1) of this section, the department shall distribute the balance of the appropriation
21 based on the annual profit of the Alaska Gas Corporation to municipalities according
22 to the following:

23 (A) subject to adjustment under (C) of this paragraph, to each
24 unified municipality, to each city that is not within a borough and, subject to

1 (B) of this section, to each borough, an amount that is based upon the
2 population of the municipality as a percentage of the population in all
3 municipalities eligible to receive a payment under this paragraph, but a
4 municipality may not, under this subparagraph, receive less than \$50,000;

5 (B) subject to adjustment under (C) of this paragraph, before
6 making a distribution to a borough of an amount determined to be due the
7 borough under (A) of this paragraph, the department shall make computations
8 and payments of amounts to all cities within the borough; the department shall
9 compute and pay to each city an amount based upon application to the amount
10 determined for the borough under (A) of this paragraph of a fraction in which
11 the numerator is the prior year's city general fund operating budget and in
12 which the denominator is the prior year's borough general fund operating
13 budget; after making the computation under this subparagraph for all cities
14 within the borough, the department shall pay the balance, if any, to the
15 borough; under this subparagraph, each city may not receive less than \$50,000;

16 (C) before reporting and distributing payments to eligible
17 municipalities under this section, the commissioner shall adjust the amounts
18 computed for each municipality that is due a payment in lieu of taxes under
19 (1) of this section greater than \$50,000; the commissioner shall make the
20 adjustment by

21 (i) determining the percentage that the amount of the
22 municipality's payment in lieu of tax determined under (1) of this
23 section bears to the total amount appropriated for distribution under
24 this section; and

25 (ii) applying that percentage to reduce the amount
26 payable to the municipality under (A) and (B) of this paragraph; the
27 commissioner shall thereafter recompute all amounts due to
28 municipalities under (A) and (B) of this paragraph to take account of
29 any unallocated money after the recomputation.

30 **Sec. 29.60.665. Financial review of the expenses of the Alaska Gas**
31 **Corporation.** The municipalities receiving payments in lieu of taxes under
32 AS 29.60.660(1) shall, collectively, annually review the expenses of the Alaska Gas

1 Corporation to determine if the expenses that were incurred by the corporation
2 attributable as expenses that are reasonably associated with the operation of the
3 corporation are appropriate and that relate to the determination of the profit of the
4 corporation. If, as a result of the review, the municipalities collectively identify issues
5 affecting claimed expenses that, after conferring with the Alaska Gas Corporation, are
6 not resolved to the satisfaction of the majority of the municipalities, the municipalities
7 and the Alaska Gas Corporation shall submit the unresolved issues concerning the
8 expenses to arbitration under AS 09.43.010 - 09.43.180 (Uniform Arbitration Act).

9 **Sec. 29.60.669. Definitions.** In AS 29.60.660 - 29.60.669,

10 (1) "general fund operating budget" means the budget of the
11 municipality exclusive of the municipality's enterprise funds;

12 (2) "profit," with reference to AS 41.41.010 - 41.41.990 (Alaska Gas
13 Corporation), means the amount determined by deducting from the total annual
14 income earned by the Alaska Gas Corporation all expenses attributable to or
15 reasonably associated with the operation of the corporation.

16 **Article 10. Alaska Gas Pipeline Municipal Impact Assistance.**

17 **Sec. 29.60.670. Impact grants authorized.** (a) Subject to appropriation for
18 the purpose, an amount equal to one percent of the estimated cost of construction of
19 the pipeline and facilities for the Trans Alaska Gas Pipeline project under
20 AS 41.41.010(a)(1) - (6) may be expended by the commissioner under this section for
21 grants to municipalities. A grant may be made to a municipality under the authority
22 of this section only once.

23 (b) The commissioner may use money appropriated under authority of (a) of
24 this section to make grants

25 (1) to each municipality eligible under AS 29.60.660(1) to receive a
26 payment in lieu of tax; the amount to be paid by the commissioner to a municipality
27 under this paragraph is an amount that is based upon the application to the amount
28 estimated under (a) of this section of a percentage of the estimated cost of
29 construction of the pipeline and facilities within the municipality to the total estimated
30 cost of construction of the pipeline and facilities for the project;

31 (2) to each municipality that is not a municipality described in (1) of
32 this subsection, the amount to be paid by the commissioner shall be based upon a

1 distribution of the balance left after providing for all payments under (1) of this
 2 subsection to municipalities in amounts that, in the judgment of the commissioner, are
 3 just and equitable.

4 (c) In this section, "project" has the meaning given in AS 41.41.990."

5 Renumber the following bill sections accordingly.

6 Page 15, following line 19:

7 Insert a new section to read:

8 **"Article 4. Obligation to Furnish Gas to Communities.**

9 **Sec. 41.41.400. Obligation to furnish gas to communities.** (a) The
 10 corporation shall provide gas to every community in the state that requests provision
 11 of it. If a community requests the corporation to supply gas to it, the corporation
 12 shall supply the gas

13 (1) in an amount sufficient to meet the anticipated demand for use of
 14 the gas within the community; and

15 (2) at a price to the community that is no greater than the actual cost
 16 of delivery of the gas to the location along the pipeline at which the community elects
 17 to receive the gas.

18 (b) In this section, "community" means home rule cities and boroughs, cities
 19 and boroughs of any class, and villages that are social units."

20 Page 15, line 20:

21 Delete "Article 4."

22 Insert "Article 5."

23 Page 16, line 24:

24 Delete "sec. 2"

25 Insert "sec. 3"

26 Page 17, line 26:

27 Delete "sec. 2"

1

Insert "sec. 3"

Introduced by: Mayor James C. Hayes

Date: May 3, 1999

RESOLUTION NO. 3816A RESOLUTION SUPPORTING HB 170 - AN ACT
ESTABLISHING A NATURAL GAS PIPELINE PROJECT

WHEREAS, Alaska has at least 26 trillion cubic feet of natural gas reserves in the Prudhoe Bay field and up to as much as two to three times that amount of potential natural gas reserves; and

WHEREAS, the Fairbanks North Star Borough is a long standing supporter of the building of a North Slope to Valdez Trans-Alaska Gasline System project both because of the benefits to the community of a clean, inexpensive supply of fuel and the potential benefits of a gasline tax structure; and

WHEREAS, Representative Jim Whitaker has introduced HB 170, which proposes the State of Alaska own the gasline, the private sector build it and communities share in the profits; and

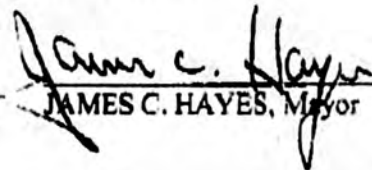
WHEREAS, the proposed structure in HB 170 would make the project economically viable and the profits from the gasline would greatly help offset the current fiscal gap by providing up to \$59 billion dollars in revenues to the state/municipalities over the life of the project; and

WHEREAS, the City of Fairbanks supports the spirit and intent of HB 170 and the proposed amendments by the Pipeline Mayors Group that would provide all municipalities in Alaska with a sharing of the profits from the project plus provide a Payment in Lieu of Tax (PILT) to those municipalities with gas project property within their boundaries.

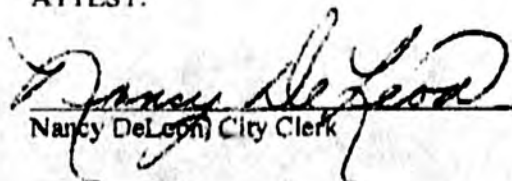
NOW, THEREFORE, BE IT RESOLVED that the City of Fairbanks Mayor and Council urge Governor Knowles and the Alaska State Legislature to take every action necessary to ensure that HB 170 is passed and the process begins to develop Alaska's vast natural gas reserves through the building of the Trans-Alaska Gas Pipeline from the North Slope to Valdez, to allow for the in-state use of and international marketing of the gas for the financial benefit of all communities throughout Alaska.

PASSED and APPROVED this 3rd day of May, 1999.

APPROVED:


JAMES C. HAYES, Mayor

ATTEST:


Nancy DeLeon, City Clerk

House Bill 170 Subcommittees

IRS Subcommittee

**Whitaker, Chairman
Phillips
Smalley
Kemplen**

Market Subcommittee

**Ogan, Chairman
Whitaker
Porter
Brice
Smalley**

Financing and Economics Subcommittee

**Harris, Chairman
Whitaker
Kemplen**

Engineering and Construction Subcommittee

**Dyson, Chairman
Whitaker
Brice**

LEGAL SERVICES

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

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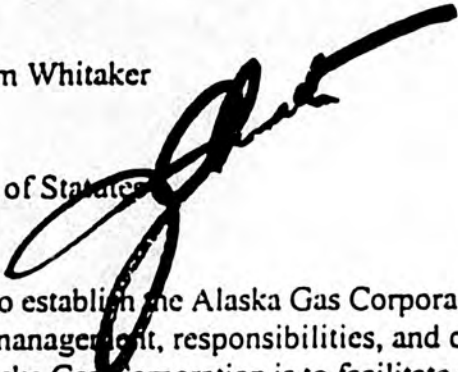
MEMORANDUM

April 28, 1999

SUBJECT: Draft CSHB 170 (): sectional analysis (Work Order No. 21-LS0694H)

TO: Representative Jim Whitaker

FROM: Jack Chenoweth
Assistant Revisor of Statutes



The principal purpose of this measure is to establish the Alaska Gas Corporation as a public corporation and to define the structure, management, responsibilities, and operation of the corporation. The chief mission of the Alaska Gas Corporation is to facilitate the commercial development of the state's North Slope natural gas reserves.

Bill section 1, an uncodified provision, sets out the findings and intent that have influenced development of the legislation.

Bill section 2: These provisions set out in a new chapter of title 41 of the Alaska Statutes (AS 41.41) the corporate structure, powers, and responsibilities of the Alaska Gas Corporation. The chapter is arranged by articles.

Article 1.

The sections identified as AS 41.41.010 - 41.41.160 are set out to define the organization of the corporation:

AS 41.41.010 establishes the corporation, enumerates its purposes, and affirms that it is intended to be a public corporation of the state.

AS 41.41.020 creates the corporation's board of directors, a seven-member board composed of two state commissioners and five public members. The qualifications of the public members are stated, and the corporation's obligation to establish its organization is set out.

AS 41.41.030 sets overlapping four-year terms for the five public members and authorizes reappointment.

AS 41.41.040 circumscribes the governor's authority to remove public members and sets out procedures to be followed relating to removal and filling of the vacancy created.

AS 41.41.050 defines quorum and voting requirements.

AS 41.41.060 prescribes compensation for public members and authorizes payment of per diem and travel expenses comparable to those provided to state employees for all members.

AS 41.41.070 enumerates general powers of the corporation.

AS 41.41.080 authorizes the board to employ an executive director who, in turn, is assigned responsibility for selection and employment of additional staff "with the approval of the board." The concluding subsection authorizes the corporation to contract for specialized services.

AS 41.41.090: While the attorney general is made legal counsel to the corporation, the board is authorized to secure the services of independent legal counsel.

AS 41.41.100: Provisions of law requiring disclosure of financial and business interests (AS 39.50) are made applicable to members of the board. In addition, provision is made for specific disclosure of information concerning a board member's or employee's involvement in an entity or project "in which assets of the corporation are invested."

AS 41.41.110 sets out the budgetary and financial relationship between the corporation and the state's budget and fiscal procedure acts.

AS 41.41.120 authorizes the Legislative Budget and Audit Committee to undertake post audit and performance evaluation of corporate obligations.

AS 41.41.130 prescribes publication of an annual report of the corporation and the contents of the report.

AS 41.41.140: This is a general tax exemption provision: the corporation and its operations and earnings are exempt from taxes and assessments in the state; bonds and security instruments are exempted from taxes and assessments made by the state.

AS 41.41.150 bars the corporation from using its resources to finance or influence political activities.

AS 41.41.160 defines information in the corporation's possession that is or is not to be treated as a public record under AS 09.25.110 - 09.25.140 and sets limits on the use or disclosure of confidential, non-disclosable information.

Article 2.

The sections identified in AS 41.41.200 - 41.41.310 generally bear upon the corporation's issuance of securities (bonds and notes and other evidence of debt). Much of the material is technical boilerplate and is included so that, as a public corporation, under article IX, section 11 of the state constitution, the corporation enjoys full authority to contract debt based on its ability to repay out of its anticipated future revenues:

AS 41.41.200: This section authorizes issuance of revenue bonds and related evidence of debt, using provisions not unlike those included in chapters establishing other public corporations of the state to facilitate the use of debt obligations.

AS 41.41.210 prescribes permissible covenants that the corporation's board may make in conjunction with issuance of revenue bond debt.

AS 41.41.220 makes the level of the corporation's authorized debt subject to legislative authorization.

AS 41.41.230 permits the board to contract for the services of an independent financial advisor in conjunction with private sale of debt instruments.

AS 41.41.240 describes the nature of the corporation's pledge of its assets or revenues to payment of principal and interest on corporation-issued debt.

AS 41.41.250 details use of "capital reserve funds" to meet repayment obligations in conjunction with the corporation's indebtedness.

AS 41.41.260 addresses remedies available to holders of debt obligations and their representatives to enforce the timely payment of an obligation or a related obligation.

AS 41.41.270 makes the corporation's obligations negotiable instruments.

AS 41.41.280 explicitly makes the corporation's obligations permissible investments for public officers and for others handling surplus funds as identified in the section's text.

AS 41.41.290 authorizes use of refunding bonds as a device to adjust the corporation's bond obligations to take advantage of more advantageous terms and conditions.

AS 41.41.300 affirms that, because the corporation's obligations are revenue-based debt instruments, the credit of the state is not pledged. Liability on the debt instrument is limited to the assets and revenues of the corporation.

AS 41.41.310 releases the corporation's officers from personal liability with reference to action taken by the corporation with respect to a debt obligation.

Article 3.

The one section in this article, AS 41.41.350, authorizes the Alaska Gas Corporation to acquire and hold property and interests in property "necessary or convenient for the financing of the [Trans Alaska Gas Pipeline] project."

Article 4.

The article contains general provisions:

AS 41.41.900 reaffirms the blanket immunity from taxation that the Alaska Gas Corporation enjoys.

AS 41.41.990 sets out a series of definitions for terms used in the chapter.

Bill section 3 amends AS 39.25 to add employees of the Alaska Gas Corporation as members in the exempt service under the State Personnel Act.

Bill section 4 amends AS 39.50.200 to add the Alaska Gas Corporation's board of directors and executive director as persons who are subject to the state's general conflict of interest law (AS 39.50).

Bill section 5: This uncodified provision directs the preparation and delivery of a "project plan" or feasibility study for planning, design, construction, and operation of a gas transmission pipeline. The specific points that are to be covered or addressed in the feasibility study and a time line for its presentation are set out.

Bill section 6 prescribes initial terms of office for the initially appointed members of the corporation's board of directors in order to establish overlapping terms of office.

JBC:jdr
99-248.jdr

Alaska State Legislature

Special Committee on Oil & Gas

Chairman Jim Whitaker
Capitol Building, Room 13
Juneau, Alaska 99801
Phone: (907) 465-3004
Fax: (907) 465-2070



Committee Meetings
Tuesday and Thursday
10:00am - 12pm
Room 017

Members:

Representative Fred Dyson
Representative Gail Phillips
Representative Brian Porter
Representative Scott Ogan

Representative John Harris
Representative Allen Kemplen
Representative Tom Brice
Representative Harold Smalley

Sponsor Statement

House Bill 170 - Alaska Gas Corporation

Article VIII, Section 2, Constitution of the State of Alaska, specifies that, "the legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people." For many years, the State of Alaska has relied heavily on the production of oil to foster its livelihood, provide opportunities for its people, and generate revenues to ensure continued prosperity. We have all seen and enjoyed the positive effects of oil development. However, low oil prices, reduced production, and potential field depletion adversely affect the state's ability to provide a secure future for its people. As we face an enormous budget deficit, we must look beyond our reliance on oil production, budget cutting and taxation as the only means of ensuring a long-term fiscal solution. It is incumbent upon the leaders of this state to recognize that further resource development is critical in order to secure an additional and substantial revenue stream to the State of Alaska. Conservatively, 35 trillion cubic feet of natural gas is stranded on the North Slope, and the failure to recognize this vital resource as a valuable commodity is in direct conflict with the provisions of the Constitution of the State of Alaska.

In order to facilitate the extraction and sale of natural gas, House Bill 170 establishes the Alaska Gas Corporation. The prime responsibility of the corporation is to buy natural gas from the producers on the North Slope and sell that gas to the Asian markets. All functions, other than ownership, including the design, construction, operation and maintenance of a natural gas pipeline from Prudhoe Bay to Valdez, construction and maintenance of a liquefaction and gas conditioning facility, and the operation of a sea transportation facility shall be contracted to private sector businesses.

Bringing gas to market through the construction of a gas pipeline is not a new concept. Numerous studies have concluded that a natural gas pipeline project undertaken by the private sector is not economically viable. Moreover, this scenario only equates to \$300 million of revenue to the state during the peak year of operation. Contrarily, the model depicting complete state ownership significantly increases the rate of return for a natural gas pipeline project. \$1.2 billion per year will be saved through the omission of state, federal and local taxes. Furthermore, capitalization costs will be substantially reduced by the state's ability to issue revenue bonds for construction. Using these assumptions, conservatively, \$53 billion of new revenue will be generated to the state over the next 28 years. State ownership clearly increases the economic viability of this project.

Overcoming a number of additional impediments is essential in order for a project of this nature to become feasible. We have extensively studied the economics, market viability, financial needs, and regulatory obstacles associated with the construction and operation of this project. The analysis of each of these components contributes positively to the feasibility of state ownership. However, in order to truly understand the economic viability of the Alaska Gas Corporation, we must turn to professionals in the engineering, financial and market sectors in order to determine absolute economic feasibility of this project.

House Bill 170 requires a natural gas pipeline feasibility study to be conducted and presented to the twenty-second Alaska State Legislature. This report shall contain specific information pertaining to technical, financial, regulatory and market access matters relating to the project. Consequently, the Alaska Gas Corporation will not be formed until this project has been deemed feasible. This study is of paramount importance in order to move forward and develop our natural resources in the maximum best interest of the citizens of the State of Alaska.

By: Hank Hove, Mayor
Mr. Young
Mr. Prax
Mr. Sonafrank
Mr. Veazey
Ms. Parr
Ms. Cummings
Mr. Sattley
Ms. Webb
Mr. Beck
Mr. LaSota

Introduced: 04/22/99
Amended: 04/22/99
Adopted: 04/22/99
Immediate Reconsideration
Failed: 04/22/99
Adopted: 04/22/99

RESOLUTION NO. 99-032

A RESOLUTION SUPPORTING HB170
AN ACT ESTABLISHING A NATURAL GAS PIPELINE PROJECT

WHEREAS, Alaska has at least 26 trillion cubic feet of natural gas reserves in the Prudhoe Bay field and up to as much as 2 to 3 times that amount of potential natural gas reserves; and

WHEREAS, the Fairbanks North Star Borough is a long standing supporter of the building of a North Slope to Valdez Trans-Alaska Gasline System project both because of the benefits to the community of a clean, inexpensive supply of fuel and the potential benefits of a gasline tax structure; and

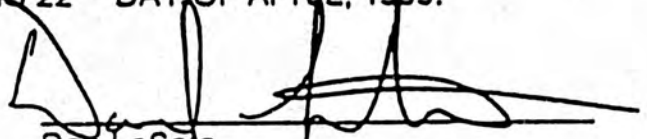
WHEREAS, Representative Jim Whitaker has introduced HB170, which proposes the State of Alaska own the gasline, the private sector build it and communities share in the profits; and

WHEREAS, the proposed structure in HB170 would make the project economically viable and the profits from the gasline would greatly help offset the current fiscal gap by providing up to \$59 billion dollars in revenues to the state/municipalities over the life of the project; and

WHEREAS, the Fairbanks North Star Borough supports the spirit and intent of HB170 and the proposed amendments by the Pipeline Mayors Group that would provide all municipalities in Alaska with a sharing of the profits from the project plus provide a Payment in Lieu of Tax (PILT) to those municipalities with gas project property within their boundaries:

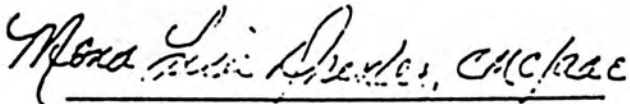
NOW, THEREFORE, BE IT RESOLVED that the Fairbanks North Star Borough Mayor and Assembly urges Governor Knowles and the Alaska State Legislature to take every prudent action necessary to ensure that HB170 is passed and the process begins to develop Alaska's vast natural gas reserves through the building of the Trans-Alaska Gas Pipeline from the North Slope to Valdez, to allow for the instate use of and international marketing of the gas for the financial benefit of all communities throughout Alaska.

PASSED AND APPROVED THIS 22ND DAY OF APRIL, 1999.



Dan LaSota
Presiding Officer

ATTEST:



Mona Lisa Drexler, CMC/AEE
Municipal Borough Clerk

Ayes: Young, Sonafrank, Cummings, Prax, Parr, Webb, Veazey, Beck, LaSota, Sattley
Noes: Solie

CITY OF VALDEZ, ALASKA

RESOLUTION NO. 99-14

A RESOLUTION OF THE CITY COUNCIL OF VALDEZ, ALASKA, SUPPORTING HOUSE BILL 170 AND ENDORSING THE CONCEPT OF MUNICIPAL REVENUE SHARING IN THE PROFITS OF THE ALASKA GAS PROJECT AS SET FORTH IN THE AMENDMENT PROPOSED BY THE PIPELINE CORRIDOR MAYOR'S ORGANIZATION.

WHEREAS, the North Slope Borough, the Fairbanks North Star Borough, and the City of Valdez, are long standing supporters of the building of a North Slope to Valdez Trans-Alaska Gas System (TAGS) project; and

WHEREAS, the City of Valdez and the above-named local government bodies, entities and others established an organization in 1997, Trans-Alaska Gasline Now!, to encourage, promote and advance the construction of the TAGS project; and

WHEREAS, Alaska has at least 26 trillion cubic feet of natural gas reserves in the Prudhoe Bay field and up to as much as 2 to 3 times that amount of potential natural gas reserves; and

WHEREAS, major permits and authorizations for the construction of a gas pipeline from the North Slope to Anderson Bay in Port Valdez and for the export of large volumes of North Slope gas to Asia have been secured; and

WHEREAS, the construction of the gas pipeline over a 7-year period (design/construction) with an estimated cost of \$9 billion (excluding the cost of tankers), could provide up to 10,000 construction jobs over several years and create up to 600 permanent jobs in Alaska's private sector; and

WHEREAS, income to the State of Alaska as the owner of the gas project would greatly help offset the current fiscal gap by providing up to \$59 billion dollars in revenues to the state/municipalities over the life of the project; and

WHEREAS, a gas pipeline from Prudhoe Bay to Valdez could make available, for the first time, clean, economical energy to the 90,000 residents of the communities along the pipeline route as well as to many communities outside of the immediate pipeline corridor, and

WHEREAS, the City of Valdez supports the spirit and intent of House Bill 170 whereby the State would establish the Alaska Gas Corporation for the building of a Trans-Alaska Gas project for the instate use of and international marketing of the vast reserves of natural gas on Alaska's North Slope; and

WHEREAS, the City of Valdez supports the amendments proposed by the Pipeline Mayor's Group that would provide all municipalities in Alaska with a sharing of the profits from the project plus provide a Payment In Lieu of Tax (PILT) to those municipalities with gas project property within their boundaries; and

WHEREAS, the City of Valdez believes this project is essential to the future economic health of both the State of Alaska and our private economy.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF VALDEZ, ALASKA, that

The City Council of the City of Valdez, Alaska, urges Governor Knowles, and the Alaska State Legislature to take every action necessary to ensure that House Bill 170 is passed and the process begins to develop Alaska's vast natural gas reserves through the building of the Trans-Alaska Gas Pipeline from the North Slope to Anderson Bay in Port Valdez, to allow for the instate use of and international marketing of the gas for the financial benefit of all communities throughout Alaska.

PASSED AND APPROVED BY THE CITY COUNCIL OF THE CITY OF VALDEZ, ALASKA, this 14th day of April, 1999.

CITY OF VALDEZ, ALASKA

Dave Cobb
Dave Cobb, Mayor

ATTEST:

Sheri L. Caples
Sheri L. Caples, CMC, City Clerk



LAW OFFICES

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LLC**

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P O BOX 1909
VALDEZ, ALASKA 99686
TELEPHONE: (907) 838-2225
FACSIMILE: (907) 838-2223

Reply to: Anchorage

April 29, 1999

Representative Jim Whitaker
Chairman, Special Committee on
Oil and Gas
Capitol Building, Room 13
Juneau, AK 99801

RE: HB 170

Dear Chairman Whitaker:

As an overview of the proposed amendment to HB 170, I submit the following short section analysis.

Article 9, Sec. 29.60.660

1. Creates a Payment-in-Lieu of Tax (PILT) to communities along the pipeline corridor that have gasline property within their taxing jurisdiction. This essentially treats this property as any other property subject to tax within each community.
2. The profits remaining after the PILT payments would be divided up among all municipalities of Alaska based upon their population with a minimum payment of \$50,000 to each municipality.
3. Municipalities that have already received the PILT would receive a reduced pro rata payment, thereby taking into consideration that those communities have already received a financial benefit through the PILT.

Article 10, Sec. 29.60.665

Communities receiving the PILT would be allowed audit privileges of the expenses of the corporation.

LAW OFFICES

WALKER WALKER WENDLANDT & OSOWSKI
LLC

Representative Jim Whitaker
Chairman, Special Committee on
Oil and Gas
April 29, 1999

Page 2

Article 10, Sec. 29.60.669

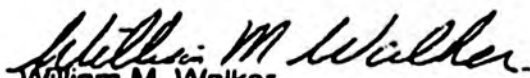
Definition of "profits" and "general fund operating budget".

Article 10, Sec. 29.60.670.

1. A 1% impact fee would be paid to each municipality based upon the estimated cost of construction in each municipality. The funding service of the 1% fee would be part of the project financing.
2. Impact funds would also be available to communities in Alaska with impact, but without pipeline property in their boundaries.
3. All communities in Alaska would be entitled to access to the gas at the cost of the gas plus transportation costs to the location of the pipeline where the community's gas is drawn.

Should you have any questions whatsoever regarding this, please do not hesitate to contact me.

Very truly yours,

WALKER WALKER
WENDLANDT & OSOWSKI, LLC
William M. Walker
WMW/cac

HB 170
Revenue Analysis of North Slope LNG Project
State Ownership of All Facilities Except Ships
\$3.50 / mmbtu gas in Far East
\$9 billion for all facilities except ships
\$3 billion for ships

year	gas sold (mm mcf/yr)	far east price of gas in '98 dollars \$3.50 (\$/mmbtu (mcf & infl adj))	gross revenue (\$mm)	total operating cost (\$mm)	total principal + interest to pay off \$9 billion capital cost (\$mm)	private ship financing of \$3 billion (\$mm)	purchase price of gas \$0.50 (\$/mcf (infl adj))	total gas purchase price (\$mm)	total cost (\$mm)	state net revenue (\$millions)
2007	102	\$5.41	553	\$182	69	69	\$0.50	\$58	\$378	175
2008	204	\$5.57	1,138	\$382	119	142	\$0.52	\$119	\$763	376
2009	307	\$5.74	1,759	\$521	261	220	\$0.53	\$184	\$1,186	573
2010	409	\$5.91	2,416	\$570	495	302	\$0.55	\$252	\$1,619	797
2011	511	\$6.09	3,110	\$722	656	389	\$0.56	\$325	\$2,092	1,018
2012	613	\$6.27	3,844	\$777	917	481	\$0.58	\$402	\$2,576	1,268
2013	613	\$6.46	3,959	\$801	944	495	\$0.60	\$414	\$2,653	1,306
2014	613	\$6.65	4,078	\$825	973	510	\$0.61	\$426	\$2,733	1,345
2015	613	\$6.85	4,200	\$849	1,002	525	\$0.63	\$439	\$2,815	1,385
2016	613	\$7.06	4,326	\$875	1,032	541	\$0.65	\$452	\$2,899	1,427
2017	613	\$7.27	4,456	\$901	1,063	557	\$0.67	\$465	\$2,986	1,470
2018	613	\$7.49	4,590	\$928	1,095	574	\$0.69	\$479	\$3,076	1,514
2019	613	\$7.71	4,728	\$956	1,127	591	\$0.71	\$494	\$3,168	1,559
2020	613	\$7.94	4,869	\$985	1,161	609	\$0.73	\$509	\$3,263	1,606
2021	613	\$8.18	5,016	\$1,014	1,196	627	\$0.76	\$524	\$3,361	1,654
2022	613	\$8.43	5,166	\$1,045	1,232	646	\$0.78	\$540	\$3,462	1,704
2023	613	\$8.68	5,321	\$1,076	1,269	665	\$0.80	\$556	\$3,566	1,755
2024	613	\$8.94	5,481	\$1,108	1,307	685	\$0.83	\$572	\$3,673	1,808
2025	613	\$9.21	5,645	\$1,141	1,346	706	\$0.85	\$590	\$3,783	1,862
2026	613	\$9.49	5,814	\$1,176	1,387	727	\$0.88	\$607	\$3,897	1,918
2027	613	\$9.77	5,989	\$1,211	1,428	749	\$0.90	\$626	\$4,013	1,975
2028	613	\$10.06	6,169	\$1,247	1,471	771	\$0.93	\$644	\$4,134	2,035
2029	613	\$10.36	6,354	\$1,285	1,515	794	\$0.96	\$664	\$4,258	2,096
2030	613	\$10.68	6,544	\$1,323	1,561	818	\$0.99	\$684	\$4,386	2,159
2031	613	\$11.00	6,740	\$1,363	1,607	843	\$1.02	\$704	\$4,517	2,223
2032	613	\$11.33	6,943	\$1,404	1,656	868	\$1.05	\$725	\$4,653	2,290
2033	613	\$11.67	7,151	\$1,446	1,705	894	\$1.08	\$747	\$4,792	2,359
2034	613	\$12.02	7,368	\$1,489	1,757	921	\$1.11	\$769	\$4,936	2,429
2035	613	\$12.38	7,586	\$1,534	1,809	949	\$1.14	\$792	\$5,084	2,502

Includes 100% tax-free financing at 6% on all facilities except ships and no federal income taxes
Assumes 100% private financing of ships at 10%

HB 170
Revenue Analysis of North Slope LNG Project
State Ownership of All Facilities Except Ships
\$2.50 / mmbtu gas in Far East
\$9 billion for all facilities except ships
\$3 billion for ships

year	gas sold (mm mcf/yr)	far east price of gas in '98 dollars \$2.50 (\$/mmbtu) (mcf & infl adj)	gross revenue (\$mm)	total operating cost (\$mm)	total principal + interest to pay off \$9 billion capital cost (\$mm)	private ship financing of \$3 billion (\$mm)	purchase price of gas \$0.50 (\$/mcf) (infl adj)	total gas purchase price (\$mm)	total cost (\$mm)	state net revenue (\$millions)
2007	102	\$3.86	395	\$182	69	69	\$0.50	\$58	\$378	17
2008	204	\$3.98	813	\$382	119	142	\$0.52	\$119	\$763	50
2009	307	\$4.10	1,256	\$521	261	220	\$0.53	\$184	\$1,186	70
2010	409	\$4.22	1,725	\$570	495	302	\$0.55	\$252	\$1,619	107
2011	511	\$4.35	2,221	\$722	656	389	\$0.56	\$325	\$2,092	130
2012	613	\$4.48	2,746	\$777	917	481	\$0.58	\$402	\$2,576	170
2013	613	\$4.61	2,828	\$801	944	495	\$0.60	\$414	\$2,653	175
2014	613	\$4.75	2,913	\$825	973	510	\$0.61	\$426	\$2,733	180
2015	613	\$4.89	3,000	\$849	1,002	525	\$0.63	\$439	\$2,815	185
2016	613	\$5.04	3,090	\$875	1,032	541	\$0.65	\$452	\$2,899	191
2017	613	\$5.19	3,183	\$901	1,063	557	\$0.67	\$465	\$2,986	197
2018	613	\$5.35	3,279	\$928	1,095	574	\$0.69	\$479	\$3,076	203
2019	613	\$5.51	3,377	\$956	1,127	591	\$0.71	\$494	\$3,168	209
2020	613	\$5.67	3,478	\$985	1,161	609	\$0.73	\$509	\$3,263	215
2021	613	\$5.84	3,583	\$1,014	1,196	627	\$0.76	\$524	\$3,361	221
2022	613	\$6.02	3,690	\$1,045	1,232	646	\$0.78	\$540	\$3,462	228
2023	613	\$6.20	3,801	\$1,076	1,269	665	\$0.80	\$556	\$3,566	235
2024	613	\$6.39	3,915	\$1,108	1,307	685	\$0.83	\$572	\$3,673	242
2025	613	\$6.58	4,032	\$1,141	1,346	706	\$0.85	\$590	\$3,783	249
2026	613	\$6.78	4,153	\$1,176	1,387	727	\$0.88	\$607	\$3,897	257
2027	613	\$6.98	4,278	\$1,211	1,428	749	\$0.90	\$626	\$4,013	264
2028	613	\$7.19	4,406	\$1,247	1,471	771	\$0.93	\$644	\$4,134	272
2029	613	\$7.40	4,538	\$1,285	1,515	794	\$0.96	\$664	\$4,258	280
2030	613	\$7.63	4,674	\$1,323	1,561	818	\$0.99	\$684	\$4,386	289
2031	613	\$7.85	4,815	\$1,363	1,607	843	\$1.02	\$704	\$4,517	297
2032	613	\$8.09	4,959	\$1,404	1,656	868	\$1.05	\$725	\$4,653	306
2033	613	\$8.33	5,108	\$1,446	1,705	894	\$1.08	\$747	\$4,792	316
2034	613	\$8.58	5,261	\$1,489	1,757	921	\$1.11	\$769	\$4,936	325
2035	613	\$8.84	5,419	\$1,534	1,809	949	\$1.14	\$792	\$5,084	335

Includes 100% tax-free financing at 6% on all facilities except ships and no federal income taxes
Assumes 100% private financing of ships at 10%

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year	gas sold (mm mcf/yr)	far east price of gas in '98 dollars \$4.50 (\$/mmbtu) (mcf & infl adj)	gross revenue (\$mm)	total operating cost (\$mm)	total principal + interest to pay off \$9 billion capital cost (\$mm)	private ship financing of \$3 billion (\$mm)	purchase price of gas \$0.50 (\$/mcf) (infl adj)	total gas purchase price (\$mm)	total cost (\$mm)	state net revenue (\$millions)
2007	102	\$6.95	711	\$182	69	69	\$0.50	\$58	\$378	333
2008	204	\$7.16	1,464	\$382	119	142	\$0.52	\$119	\$763	701
2009	307	\$7.38	2,261	\$521	261	220	\$0.53	\$184	\$1,186	1,075
2010	409	\$7.60	3,106	\$570	495	302	\$0.55	\$252	\$1,619	1,487
2011	511	\$7.83	3,999	\$722	656	389	\$0.56	\$325	\$2,092	1,907
2012	613	\$8.06	4,942	\$777	917	481	\$0.58	\$402	\$2,576	2,366
2013	613	\$8.30	5,091	\$801	944	495	\$0.60	\$414	\$2,653	2,437
2014	613	\$8.55	5,243	\$825	973	510	\$0.61	\$426	\$2,733	2,510
2015	613	\$8.81	5,401	\$849	1,002	525	\$0.63	\$439	\$2,815	2,586
2016	613	\$9.07	5,563	\$875	1,032	541	\$0.65	\$452	\$2,899	2,663
2017	613	\$9.35	5,729	\$901	1,063	557	\$0.67	\$465	\$2,986	2,743
2018	613	\$9.63	5,901	\$928	1,095	574	\$0.69	\$479	\$3,076	2,825
2019	613	\$9.92	6,078	\$956	1,127	591	\$0.71	\$494	\$3,168	2,910
2020	613	\$10.21	6,261	\$985	1,161	609	\$0.73	\$509	\$3,263	2,997
2021	613	\$10.52	6,449	\$1,014	1,196	627	\$0.76	\$524	\$3,361	3,087
2022	613	\$10.84	6,642	\$1,045	1,232	646	\$0.78	\$540	\$3,462	3,180
2023	613	\$11.16	6,841	\$1,076	1,269	665	\$0.80	\$556	\$3,566	3,275
2024	613	\$11.50	7,047	\$1,108	1,307	685	\$0.83	\$572	\$3,673	3,374
2025	613	\$11.84	7,258	\$1,141	1,346	706	\$0.85	\$590	\$3,783	3,475
2026	613	\$12.20	7,476	\$1,176	1,387	727	\$0.88	\$607	\$3,897	3,579
2027	613	\$12.56	7,700	\$1,211	1,428	749	\$0.90	\$626	\$4,013	3,686
2028	613	\$12.94	7,931	\$1,247	1,471	771	\$0.93	\$644	\$4,134	3,797
2029	613	\$13.33	8,169	\$1,285	1,515	794	\$0.96	\$664	\$4,258	3,911
2030	613	\$13.73	8,414	\$1,323	1,561	818	\$0.99	\$684	\$4,386	4,028
2031	613	\$14.14	8,666	\$1,363	1,607	843	\$1.02	\$704	\$4,517	4,149
2032	613	\$14.56	8,926	\$1,404	1,656	868	\$1.05	\$725	\$4,653	4,274
2033	613	\$15.00	9,194	\$1,446	1,705	894	\$1.08	\$747	\$4,792	4,402
2034	613	\$15.45	9,470	\$1,489	1,757	921	\$1.11	\$769	\$4,936	4,534
2035	613	\$15.91	9,754	\$1,534	1,809	949	\$1.14	\$792	\$5,084	4,670

Includes 100% tax-free financing at 6% on all facilities except ships and no federal income taxes
Assumes 100% private financing of ships at 10%

HB 170
Revenue Analysis of North Slope LNG Project
State Ownership of All Facilities
\$3.50 / mmbtu gas in Far East
\$9 billion for all facilities except ships
use of surplus LNG tankers

year	gas sold (mm mcf/yr)	far east price of gas in '98 dollars \$3.50 (\$/mmbtu) (mcf & infl adj)	gross revenue (\$mm)	total operating cost (\$mm)	total principal + interest to pay off \$9 billion capital cost (\$mm)	purchase price of gas (\$/mcf) (infl adj)	total gas purchase price (\$mm)	total cost (\$mm)	state net revenue (\$millions)
2007	102	\$5.41	553	\$182	69	\$0.50	\$58	\$309	244
2008	204	\$5.57	1,138	\$382	119	\$0.52	\$119	\$621	518
2009	307	\$5.74	1,759	\$521	261	\$0.53	\$184	\$966	793
2010	409	\$5.91	2,416	\$570	495	\$0.55	\$252	\$1,317	1,099
2011	511	\$6.09	3,110	\$722	656	\$0.56	\$325	\$1,703	1,407
2012	613	\$6.27	3,844	\$777	917	\$0.58	\$402	\$2,095	1,749
2013	613	\$6.46	3,959	\$801	944	\$0.60	\$414	\$2,158	1,801
2014	613	\$6.65	4,078	\$825	973	\$0.61	\$426	\$2,223	1,855
2015	613	\$6.85	4,200	\$849	1,002	\$0.63	\$439	\$2,290	1,911
2016	613	\$7.06	4,326	\$875	1,032	\$0.65	\$452	\$2,358	1,968
2017	613	\$7.27	4,456	\$901	1,063	\$0.67	\$465	\$2,429	2,027
2018	613	\$7.49	4,590	\$928	1,095	\$0.69	\$479	\$2,502	2,088
2019	613	\$7.71	4,728	\$956	1,127	\$0.71	\$494	\$2,577	2,151
2020	613	\$7.94	4,869	\$985	1,161	\$0.73	\$509	\$2,654	2,215
2021	613	\$8.18	5,016	\$1,014	1,196	\$0.76	\$524	\$2,734	2,281
2022	613	\$8.43	5,166	\$1,045	1,232	\$0.78	\$540	\$2,816	2,350
2023	613	\$8.68	5,321	\$1,076	1,269	\$0.80	\$556	\$2,901	2,420
2024	613	\$8.94	5,481	\$1,108	1,307	\$0.83	\$572	\$2,988	2,493
2025	613	\$9.21	5,645	\$1,141	1,346	\$0.85	\$590	\$3,077	2,568
2026	613	\$9.49	5,814	\$1,176	1,387	\$0.88	\$607	\$3,170	2,645
2027	613	\$9.77	5,989	\$1,211	1,428	\$0.90	\$626	\$3,265	2,724
2028	613	\$10.06	6,169	\$1,247	1,471	\$0.93	\$644	\$3,363	2,806
2029	613	\$10.36	6,354	\$1,285	1,515	\$0.96	\$664	\$3,463	2,890
2030	613	\$10.68	6,544	\$1,323	1,561	\$0.99	\$684	\$3,567	2,977
2031	613	\$11.00	6,740	\$1,363	1,607	\$1.02	\$704	\$3,674	3,066
2032	613	\$11.33	6,943	\$1,404	1,656	\$1.05	\$725	\$3,785	3,158
2033	613	\$11.67	7,151	\$1,446	1,705	\$1.08	\$747	\$3,898	3,253
2034	613	\$12.02	7,366	\$1,489	1,757	\$1.11	\$769	\$4,015	3,350
2035	613	\$12.38	7,586	\$1,534	1,809	\$1.14	\$792	\$4,136	3,451

Includes 100% tax-free financing at 6% on all facilities except ships and no federal income taxes
Assumes use of surplus tankers at operating cost only (including 10% profit and taxes)

HB 170
Revenue Analysis of North Slope LNG Project
State Ownership of All Facilities
\$2.50 / mmbtu gas in Far East
\$9 billion for all facilities except ships
use of surplus LNG tankers

year	gas sold (mm mcf/yr)	far east price of gas in '98 dollars \$2.50 (\$/mmbtu) (mcf & infl adj)	gross revenue (\$mm)	:	total operating cost (\$mm)	:	total principal + interest to pay off \$9 billion capital cost (\$mm)	:	purchase price of gas \$0.50 (\$/mcf) (infl adj)	:	total gas purchase price (\$mm)	:	total cost (\$mm)	:	state net revenue (\$millions)
2007	102	\$3.86	395	:	\$182	:	69	:	\$0.50	:	\$58	:	\$309	:	86
2008	204	\$3.98	813	:	\$382	:	119	:	\$0.52	:	\$119	:	\$621	:	193
2009	307	\$4.10	1,256	:	\$521	:	261	:	\$0.53	:	\$184	:	\$966	:	290
2010	409	\$4.22	1,725	:	\$570	:	495	:	\$0.55	:	\$252	:	\$1,317	:	409
2011	511	\$4.35	2,221	:	\$722	:	656	:	\$0.56	:	\$325	:	\$1,703	:	518
2012	613	\$4.48	2,746	:	\$777	:	917	:	\$0.58	:	\$402	:	\$2,095	:	650
2013	613	\$4.61	2,828	:	\$801	:	944	:	\$0.60	:	\$414	:	\$2,158	:	670
2014	613	\$4.75	2,913	:	\$825	:	973	:	\$0.61	:	\$426	:	\$2,223	:	690
2015	613	\$4.89	3,000	:	\$849	:	1,002	:	\$0.63	:	\$439	:	\$2,290	:	711
2016	613	\$5.04	3,090	:	\$875	:	1,032	:	\$0.65	:	\$452	:	\$2,358	:	732
2017	613	\$5.19	3,183	:	\$901	:	1,063	:	\$0.67	:	\$465	:	\$2,429	:	754
2018	613	\$5.35	3,279	:	\$928	:	1,095	:	\$0.69	:	\$479	:	\$2,502	:	776
2019	613	\$5.51	3,377	:	\$956	:	1,127	:	\$0.71	:	\$494	:	\$2,577	:	800
2020	613	\$5.67	3,478	:	\$985	:	1,161	:	\$0.73	:	\$509	:	\$2,654	:	824
2021	613	\$5.84	3,583	:	\$1,014	:	1,196	:	\$0.76	:	\$524	:	\$2,734	:	848
2022	613	\$6.02	3,690	:	\$1,045	:	1,232	:	\$0.78	:	\$540	:	\$2,816	:	874
2023	613	\$6.20	3,801	:	\$1,076	:	1,269	:	\$0.80	:	\$556	:	\$2,901	:	900
2024	613	\$6.39	3,915	:	\$1,108	:	1,307	:	\$0.83	:	\$572	:	\$2,988	:	927
2025	613	\$6.58	4,032	:	\$1,141	:	1,346	:	\$0.85	:	\$590	:	\$3,077	:	955
2026	613	\$6.78	4,153	:	\$1,176	:	1,387	:	\$0.88	:	\$607	:	\$3,170	:	984
2027	613	\$6.98	4,278	:	\$1,211	:	1,428	:	\$0.90	:	\$626	:	\$3,265	:	1,013
2028	613	\$7.19	4,406	:	\$1,247	:	1,471	:	\$0.93	:	\$644	:	\$3,363	:	1,044
2029	613	\$7.40	4,538	:	\$1,285	:	1,515	:	\$0.96	:	\$664	:	\$3,463	:	1,075
2030	613	\$7.63	4,674	:	\$1,323	:	1,561	:	\$0.99	:	\$684	:	\$3,567	:	1,107
2031	613	\$7.85	4,815	:	\$1,363	:	1,607	:	\$1.02	:	\$704	:	\$3,674	:	1,140
2032	613	\$8.09	4,959	:	\$1,404	:	1,656	:	\$1.05	:	\$725	:	\$3,785	:	1,174
2033	613	\$8.33	5,108	:	\$1,446	:	1,705	:	\$1.08	:	\$747	:	\$3,898	:	1,210
2034	613	\$8.58	5,261	:	\$1,489	:	1,757	:	\$1.11	:	\$769	:	\$4,015	:	1,246
2035	613	\$8.84	5,419	:	\$1,534	:	1,809	:	\$1.14	:	\$792	:	\$4,136	:	1,283

Includes 100% tax-free financing at 6% on all facilities except ships and no federal income taxes
Assumes use of surplus tankers at operating cost only (including 10% profit and taxes)

#6

HB 170
Revenue Analysis of North Slope LNG Project
State Ownership of All Facilities
\$4.50 / mmbtu gas in Far East
\$9 billion for all facilities except ships
use of surplus LNG tankers

year	gas sold (mm mcf/yr)	far east price of gas in '98 dollars \$4.50 (\$/mmbtu) (mcf & infl adj)	gross revenue (\$mm)	total operating cost (\$mm)	total principal + interest to pay off \$9 billion capital cost (\$mm)	purchase price of gas \$0.50 (\$/mcf) (infl adj)	total gas purchase price (\$mm)	total cost (\$mm)	state net revenue (\$millions)
2007	102	\$6.95	711	\$182	69	\$0.50	\$58	\$309	402
2008	204	\$7.16	1,464	\$382	119	\$0.52	\$119	\$621	843
2009	307	\$7.38	2,261	\$521	261	\$0.53	\$184	\$966	1,295
2010	409	\$7.60	3,106	\$570	495	\$0.55	\$252	\$1,317	1,789
2011	511	\$7.83	3,999	\$722	656	\$0.56	\$325	\$1,703	2,296
2012	613	\$8.06	4,942	\$777	917	\$0.58	\$402	\$2,095	2,847
2013	613	\$8.30	5,091	\$801	944	\$0.60	\$414	\$2,158	2,932
2014	613	\$8.55	5,243	\$825	973	\$0.61	\$426	\$2,223	3,020
2015	613	\$8.81	5,401	\$849	1,002	\$0.63	\$439	\$2,290	3,111
2016	613	\$9.07	5,563	\$875	1,032	\$0.65	\$452	\$2,358	3,204
2017	613	\$9.35	5,729	\$901	1,063	\$0.67	\$465	\$2,429	3,300
2018	613	\$9.63	5,901	\$928	1,095	\$0.69	\$479	\$2,502	3,399
2019	613	\$9.92	6,078	\$956	1,127	\$0.71	\$494	\$2,577	3,501
2020	613	\$10.21	6,261	\$985	1,161	\$0.73	\$509	\$2,654	3,606
2021	613	\$10.52	6,449	\$1,014	1,196	\$0.76	\$524	\$2,734	3,715
2022	613	\$10.84	6,642	\$1,045	1,232	\$0.78	\$540	\$2,816	3,826
2023	613	\$11.16	6,841	\$1,076	1,269	\$0.80	\$556	\$2,901	3,941
2024	613	\$11.50	7,047	\$1,108	1,307	\$0.83	\$572	\$2,988	4,059
2025	613	\$11.84	7,258	\$1,141	1,346	\$0.85	\$590	\$3,077	4,181
2026	613	\$12.20	7,476	\$1,176	1,387	\$0.88	\$607	\$3,170	4,306
2027	613	\$12.56	7,700	\$1,211	1,428	\$0.90	\$626	\$3,265	4,435
2028	613	\$12.94	7,931	\$1,247	1,471	\$0.93	\$644	\$3,363	4,568
2029	613	\$13.33	8,169	\$1,285	1,515	\$0.96	\$664	\$3,463	4,705
2030	613	\$13.73	8,414	\$1,323	1,561	\$0.99	\$684	\$3,567	4,847
2031	613	\$14.14	8,666	\$1,363	1,607	\$1.02	\$704	\$3,674	4,992
2032	613	\$14.56	8,926	\$1,404	1,656	\$1.05	\$725	\$3,785	5,142
2033	613	\$15.00	9,194	\$1,446	1,705	\$1.08	\$747	\$3,898	5,296
2034	613	\$15.45	9,470	\$1,489	1,757	\$1.11	\$769	\$4,015	5,455
2035	613	\$15.91	9,754	\$1,534	1,809	\$1.14	\$792	\$4,136	5,619

Includes 100% tax-free financing at 6% on all facilities except ships and no federal income taxes
Assumes use of surplus tankers at operating cost only (including 10% profit and taxes)

HB 170
Revenue Analysis of North Slope LNG Project
State Ownership of All Facilities
\$2.50 / mmbtu gas in Far East
\$12 billion cost for all facilities

year	gas sold (mm mcf/yr)	far east price of gas in '98 dollars \$2.50 (\$/mmbtu) (mcf & infl adj)	gross revenue (\$mm)	total operating cost (\$mm)	total principal + interest to pay off \$12 billion capital cost (\$mm)	purchase price of gas \$0.50 (\$/mcf) (infl adj)	total gas purchase price (\$mm)	total cost (\$mm)	state net revenue (\$millions)
2007	102	\$3.86	395	\$171	98	\$0.50	\$58	\$327	68
2008	204	\$3.98	813	\$359	194	\$0.52	\$119	\$672	142
2009	307	\$4.10	1,256	\$485	369	\$0.53	\$184	\$1,038	219
2010	409	\$4.22	1,725	\$520	653	\$0.55	\$252	\$1,425	301
2011	511	\$4.35	2,221	\$658	852	\$0.56	\$325	\$1,835	387
2012	613	\$4.48	2,746	\$699	1,167	\$0.58	\$402	\$2,267	478
2013	613	\$4.61	2,828	\$720	1,202	\$0.60	\$414	\$2,335	493
2014	613	\$4.75	2,913	\$741	1,238	\$0.61	\$426	\$2,406	507
2015	613	\$4.89	3,000	\$764	1,275	\$0.63	\$439	\$2,478	523
2016	613	\$5.04	3,090	\$786	1,314	\$0.65	\$452	\$2,552	538
2017	613	\$5.19	3,183	\$810	1,353	\$0.67	\$465	\$2,629	554
2018	613	\$5.35	3,279	\$834	1,394	\$0.69	\$479	\$2,707	571
2019	613	\$5.51	3,377	\$859	1,436	\$0.71	\$494	\$2,789	588
2020	613	\$5.67	3,478	\$885	1,479	\$0.73	\$509	\$2,872	606
2021	613	\$5.84	3,583	\$912	1,523	\$0.76	\$524	\$2,959	624
2022	613	\$6.02	3,690	\$939	1,569	\$0.78	\$540	\$3,047	643
2023	613	\$6.20	3,801	\$967	1,616	\$0.80	\$556	\$3,139	662
2024	613	\$6.39	3,915	\$996	1,664	\$0.83	\$572	\$3,233	682
2025	613	\$6.58	4,032	\$1,026	1,714	\$0.85	\$590	\$3,330	702
2026	613	\$6.78	4,153	\$1,057	1,765	\$0.88	\$607	\$3,430	723
2027	613	\$6.98	4,278	\$1,089	1,818	\$0.90	\$626	\$3,533	745
2028	613	\$7.19	4,406	\$1,121	1,873	\$0.93	\$644	\$3,639	767
2029	613	\$7.40	4,538	\$1,155	1,929	\$0.96	\$664	\$3,748	790
2030	613	\$7.63	4,674	\$1,190	1,987	\$0.99	\$684	\$3,860	814
2031	613	\$7.85	4,815	\$1,225	2,047	\$1.02	\$704	\$3,976	839
2032	613	\$8.09	4,959	\$1,262	2,108	\$1.05	\$725	\$4,095	864
2033	613	\$8.33	5,108	\$1,300	2,171	\$1.08	\$747	\$4,218	890
2034	613	\$8.58	5,261	\$1,339	2,236	\$1.11	\$769	\$4,345	916
2035	613	\$8.84	5,419	\$1,379	2,304	\$1.14	\$792	\$4,475	944

Includes 100% tax-free financing at 6% on all facilities and no federal income taxes

#8

HB 170
Revenue Analysis of North Slope LNG Project
State Ownership of All Facilities
\$3.50 / mmbtu gas in Far East
\$12 billion cost for all facilities

year	gas sold (mm mcf/yr)	far east price of gas in '98 dollars \$3.50 (\$/mmbtu) (mcf & infl adj)	gross revenue (\$mm)	:	total operating cost (\$mm)	:	total principal + interest to pay off \$12 billion capital cost (\$mm)	:	purchase price of gas \$0.60 (\$/mcf) (infl adj)	:	total gas purchase price (\$mm)	:	total cost (\$mm)	:	state net revenue (\$millions)
2007	102	\$5.41	553	:	\$171	:	98	:	\$0.50	:	\$58	:	\$327	:	226
2008	204	\$5.57	1,138	:	\$359	:	194	:	\$0.52	:	\$119	:	\$672	:	467
2009	307	\$5.74	1,759	:	\$485	:	369	:	\$0.53	:	\$184	:	\$1,038	:	721
2010	409	\$5.91	2,416	:	\$520	:	653	:	\$0.55	:	\$252	:	\$1,425	:	991
2011	511	\$6.09	3,110	:	\$658	:	852	:	\$0.56	:	\$325	:	\$1,835	:	1,276
2012	613	\$6.27	3,844	:	\$699	:	1,167	:	\$0.58	:	\$402	:	\$2,267	:	1,577
2013	613	\$6.46	3,959	:	\$720	:	1,202	:	\$0.60	:	\$414	:	\$2,335	:	1,624
2014	613	\$6.65	4,078	:	\$741	:	1,238	:	\$0.61	:	\$426	:	\$2,406	:	1,673
2015	613	\$6.85	4,200	:	\$764	:	1,275	:	\$0.63	:	\$439	:	\$2,478	:	1,723
2016	613	\$7.06	4,326	:	\$786	:	1,314	:	\$0.65	:	\$452	:	\$2,552	:	1,774
2017	613	\$7.27	4,456	:	\$810	:	1,353	:	\$0.67	:	\$465	:	\$2,629	:	1,828
2018	613	\$7.49	4,590	:	\$834	:	1,394	:	\$0.69	:	\$479	:	\$2,707	:	1,882
2019	613	\$7.71	4,728	:	\$859	:	1,436	:	\$0.71	:	\$494	:	\$2,789	:	1,939
2020	613	\$7.94	4,869	:	\$885	:	1,479	:	\$0.73	:	\$509	:	\$2,872	:	1,997
2021	613	\$8.18	5,016	:	\$912	:	1,523	:	\$0.76	:	\$524	:	\$2,959	:	2,057
2022	613	\$8.43	5,166	:	\$939	:	1,569	:	\$0.78	:	\$540	:	\$3,047	:	2,119
2023	613	\$8.68	5,321	:	\$967	:	1,616	:	\$0.80	:	\$556	:	\$3,139	:	2,182
2024	613	\$8.94	5,481	:	\$996	:	1,664	:	\$0.83	:	\$572	:	\$3,233	:	2,248
2025	613	\$9.21	5,645	:	\$1,026	:	1,714	:	\$0.85	:	\$590	:	\$3,330	:	2,315
2026	613	\$9.49	5,814	:	\$1,057	:	1,765	:	\$0.88	:	\$607	:	\$3,430	:	2,385
2027	613	\$9.77	5,989	:	\$1,089	:	1,818	:	\$0.90	:	\$626	:	\$3,533	:	2,456
2028	613	\$10.06	6,169	:	\$1,121	:	1,873	:	\$0.93	:	\$644	:	\$3,639	:	2,530
2029	613	\$10.36	6,354	:	\$1,155	:	1,929	:	\$0.96	:	\$664	:	\$3,748	:	2,606
2030	613	\$10.68	6,544	:	\$1,190	:	1,987	:	\$0.99	:	\$684	:	\$3,860	:	2,684
2031	613	\$11.00	6,740	:	\$1,225	:	2,047	:	\$1.02	:	\$704	:	\$3,976	:	2,764
2032	613	\$11.33	6,943	:	\$1,262	:	2,108	:	\$1.05	:	\$725	:	\$4,095	:	2,847
2033	613	\$11.67	7,151	:	\$1,300	:	2,171	:	\$1.08	:	\$747	:	\$4,218	:	2,933
2034	613	\$12.02	7,366	:	\$1,339	:	2,236	:	\$1.11	:	\$769	:	\$4,345	:	3,021
2035	613	\$12.38	7,586	:	\$1,379	:	2,304	:	\$1.14	:	\$792	:	\$4,475	:	3,111

Includes 100% tax-free financing at 6% on all facilities and no federal income taxes

#9

HB 170
Revenue Analysis of North Slope LNG Project
State Ownership of All Facilities
\$4.50 / mmbtu gas in Far East
\$12 billion cost for all facilities

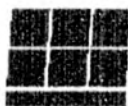
year	gas sold (mm mcf/yr)	far east price of gas in '98 dollars \$4.50 (\$/mmbtu) (mcf & infl adj)	gross revenue (\$mm)	total operating cost (\$mm)	total principal + interest to pay off \$12 billion capital cost (\$mm)	purchase price of gas \$0.50 (\$/mcf) (infl adj)	total gas purchase price (\$mm)	total cost (\$mm)	state net revenue (\$millions)
2007	102	\$6.95	711	\$171	98	\$0.50	\$58	\$327	384
2008	204	\$7.16	1,464	\$359	194	\$0.52	\$119	\$672	792
2009	307	\$7.38	2,261	\$485	369	\$0.53	\$184	\$1,038	1,224
2010	409	\$7.60	3,106	\$520	653	\$0.55	\$252	\$1,425	1,681
2011	511	\$7.83	3,999	\$658	852	\$0.56	\$325	\$1,835	2,164
2012	613	\$8.06	4,942	\$699	1,167	\$0.58	\$402	\$2,267	2,675
2013	613	\$8.30	5,091	\$720	1,202	\$0.60	\$414	\$2,335	2,755
2014	613	\$8.55	5,243	\$741	1,238	\$0.61	\$426	\$2,406	2,838
2015	613	\$8.81	5,401	\$764	1,275	\$0.63	\$439	\$2,478	2,923
2016	613	\$9.07	5,563	\$786	1,314	\$0.65	\$452	\$2,552	3,011
2017	613	\$9.35	5,729	\$810	1,353	\$0.67	\$465	\$2,629	3,101
2018	613	\$9.63	5,901	\$834	1,394	\$0.69	\$479	\$2,707	3,194
2019	613	\$9.92	6,078	\$859	1,436	\$0.71	\$494	\$2,789	3,290
2020	613	\$10.21	6,261	\$885	1,479	\$0.73	\$509	\$2,872	3,388
2021	613	\$10.52	6,449	\$912	1,523	\$0.76	\$524	\$2,959	3,490
2022	613	\$10.84	6,642	\$939	1,569	\$0.78	\$540	\$3,047	3,595
2023	613	\$11.16	6,841	\$967	1,616	\$0.80	\$556	\$3,139	3,703
2024	613	\$11.50	7,047	\$996	1,664	\$0.83	\$572	\$3,233	3,814
2025	613	\$11.84	7,258	\$1,026	1,714	\$0.85	\$590	\$3,330	3,928
2026	613	\$12.20	7,476	\$1,057	1,765	\$0.88	\$607	\$3,430	4,046
2027	613	\$12.56	7,700	\$1,089	1,818	\$0.90	\$626	\$3,533	4,167
2028	613	\$12.94	7,931	\$1,121	1,873	\$0.93	\$644	\$3,639	4,292
2029	613	\$13.33	8,169	\$1,155	1,929	\$0.96	\$664	\$3,748	4,421
2030	613	\$13.73	8,414	\$1,190	1,987	\$0.99	\$684	\$3,860	4,554
2031	613	\$14.14	8,666	\$1,225	2,047	\$1.02	\$704	\$3,976	4,690
2032	613	\$14.56	8,928	\$1,262	2,108	\$1.05	\$725	\$4,095	4,831
2033	613	\$15.00	9,194	\$1,300	2,171	\$1.08	\$747	\$4,218	4,976
2034	613	\$15.45	9,470	\$1,339	2,236	\$1.11	\$769	\$4,345	5,125
2035	613	\$15.91	9,754	\$1,379	2,304	\$1.14	\$792	\$4,475	5,279

Includes 100% tax-free financing at 6% on all facilities and no federal income taxes

*An Introduction to
Seattle-Northwest Securities Corporation
for*

Alaska State Legislature
Special Committee on Oil and Gas

May 6, 1999



SEATTLE-NORTHWEST
SECURITIES CORPORATION

Mark Prussing, Public Finance
1000 SW Broadway, Suite 1800
Portland, Oregon 97205
(503) 275-8309

Description of Seattle-Northwest Securities Corporation

Regional Orientation

Seattle-Northwest Securities Corporation is distinctive among investment banking firms:

- Seattle-Northwest was formed in 1970 as a specialist in public finance. We have celebrated our 28th anniversary in the business.
- We are the leading underwriting and financial advisory firm in the region.
- We are wholly employee-owned, which gives us greater flexibility in serving the needs of our clients and keeps the control of our company in the region we serve.
- Seattle-Northwest has three offices, one in Seattle employing 71 individuals, one in Portland employing 20 individuals and one in Boise employing three individuals.
- Seattle-Northwest's commitment to our clients and our local ownership gives us a strong competitive advantage over other firms.

Seattle-Northwest Securities Corporation
Alaska and Pacific Northwest Focus

Seattle Office
22 Public Finance
30 Sales & Trading
71 Total Employees

Portland Office
8 Public Finance
12 Sales & Trading
20 Total Employees

Boise Office
2 Public Finance
1 Sales & Trading
3 Total Employees

In the face of numerous acquisitions in our industry resulting in fewer firms serving government issuers, Seattle-Northwest has renewed our commitment to our longstanding personal and professional ties to the Northwest to the benefit of our clients.

Company Organization

The company is comprised of three departments:

- Public Finance (Financial Advisory and Underwriting)
- Product Management (Municipal and Taxable Trading and Sales)
- Mortgage-Backed Securities (Trading and Sales)

Seattle-Northwest is a conservatively run company and has always been profitable in its 28 year history. We are employee owned and therefore have minimal turnover.



SEATTLE-NORTHWEST
SECURITIES CORPORATION

Public Finance

Our public finance professionals provide investment banking and financial consulting services to a full range of municipalities. Seattle-Northwest is involved in tax-exempt bond issues from the beginning stages, planning and structuring the financings and coordinating services with other key participants such as bond counsel, rating agencies, insurance companies, and engineers. We are thoroughly experienced in helping our clients meet their capital financing needs through general obligation bonds, revenue bonds, local improvement district bonds, and industrial development bonds.

Financial Advisory

Our financial advisory clients include the State of Washington, the University of Washington, King County, several departments of the State of Oregon, and the City of Seattle, to name a few. Other major clients include the City of Tacoma, City of Boise, Idaho, Portland Public Schools, and numerous school districts throughout the region.

Underwriting

In 1998, Seattle-Northwest was ranked the #1 financial advisor in the Northwest, as well as the #1 underwriter of tax-exempt bond issues in the Northwest (both in par value and number of issues). Over the past five years, Seattle-Northwest has served as underwriter or financial advisor on over 1,100 bond issues with a combined par value of approximately \$16 billion.

1998 Northwest Underwriter Rankings Washington, Oregon, Idaho and Alaska

Ranking	Underwriter	Amount (\$M)	Issues
1	Seattle-Northwest	\$1,676.1	210
2	Goldman Sachs	1,505.6	28
3	Salomon Smith Barney	1,285.4	51
4	PaineWebber	983.3	26
5	Lehman Brothers	864.5	22
6	Dain Rauscher	613.1	43
7	Merrill Lynch & Co.	589.5	6
8	NationsBanc Montgomery	463.9	24
9	Prudential Securities	349.7	20
10	BancAmerica Robertson	341.2	28

Source: Securities Data Co.

1998 Financial Advisor Rankings Washington, Oregon, Idaho, and Alaska

Ranking	Underwriter	Amount (\$M)	Issues
1	Seattle-Northwest	\$1,583.0	34
2	Public Financial Mgmt.	824.9	7
3	Regional Financial Advisors	746.2	33
4	Piper Jaffray	714.4	5
5	Clancy, Gardiner & Pierce	608.0	24
6	Seagraves & Hein	446.3	35
7	CGMS Incorporated	424.3	40
8	Yeastig & Associates	325.1	16
9	A. Dashen & Associates	314.8	15
10	PG Corbin	276.1	4

Source: Securities Data Co.



SEATTLE-NORTHWEST
SECURITIES CORPORATION

Mark W. Prussing, CPA

Mr. Prussing has a wide range of experience in the area of public finance. He began his work with Seattle-Northwest in the late 1980's, specializing in the development of computerized financial models for structuring bond issues, leaving to return to Alaska in 1989. While in Alaska, Mr. Prussing conducted financial advisory services for a variety of issuers including The City and Borough of Sitka, Alaska Pacific University, and the Anchorage Economic Development Council. While involved in this work, Mr. Prussing was asked to serve as the State Comptroller for the State of Alaska. He accepted this role, and worked as part of a team responsible for the management of nearly \$10 billion of the State's financial assets, including the Public and Teachers' Retirement Systems' Funds.

Mr. Prussing rejoined the Portland Office of Seattle-Northwest in the fall of 1998. Since that time he has been involved in the issuance of over \$600 million in municipal bonds. He currently serves as financial advisor for the City of Seattle and King County, Washington.

Mr. Prussing is a CPA, licensed in Alaska, having worked with Peat, Marwick, Mitchell and Co. in both their Anchorage and Portland offices. He holds a Bachelor of Science degree (*cum laude*) from the University of Utah and is a member of the Alaska Government Finance Officers Association. Mr. Prussing is also a past member of the Board of Directors for St. Ann's Care Center in Juneau.



FIRM RESUME

The law firm of Wohlforth, Vassar, Johnson & Brecht, A Professional Corporation, was founded in 1967 and has built a diverse and comprehensive business, commercial and government law practice. The firm is nationally recognized for its municipal and public finance practice and has a deep grounding in Alaska. We also practice in many other areas, including corporate, securities, banking, real estate, environmental, labor and employment, and state, municipal and public authority financing law and commercial litigation. Clients include the Alaska Housing Finance Corporation, Alaska Student Loan Corporation, banks, trust companies, investment banks, securities issuers, corporations, Alaska Native Corporations, various enterprises, nonprofit corporations, rural Alaska communities, and municipalities and state agencies. Its members have served as Commissioner of Revenue, Director of Banking and Securities and in many other Alaska governmental positions.

KENNETH E. VASSAR

EXPERIENCE

ATTORNEY AND MEMBER OF FIRM Wohlforth, Vassar, Johnson & Brecht, A Professional Corporation Anchorage, Alaska

1982 to present

Bond and legal counsel to various bond issuers, including Alaska Housing Finance Corporation, Alaska Student Loan Corporation, Alaska Industrial Development and Export Authority, Alaska Energy Authority, and Alaska Railroad Corporation in issuing a broad range of short- and long-term debt.

Responsibilities have included drafting of bond indentures, supplemental indentures, resolutions, tax and arbitrage certificates, and all closing documents; tax and general law research; volume cap coordination; communication and negotiation with underwriters, credit enhancers, trustees, and other parties; and other work related to bond financings.

ASSISTANT ATTORNEY GENERAL

State of Alaska
Juneau, Alaska

1980 to 1982

Acted as counsel to the Office of the Governor, the Alaska Housing Finance Corporation, the Alaska Industrial Development Authority, and the Alaska Power Authority. Drafted and reviewed legislation affecting these and other clients and prepared recommendations to the Governor regarding the same. Drafted and reviewed regulations for publication in the Alaska Administrative Code.

LEGISLATIVE COUNSEL

Alaska State Legislature, State of Alaska
Juneau, Alaska

1977 to 1980

Drafted primary legislation for state assisted home loan program, for industrial development loan program, for bond-issuing state agency programs, and for state-operated, direct-lending programs. Programs ultimately provided more than two billion dollars for home mortgages in Alaska. Also had responsibility for drafting legislation relating to natural resources and advising legislators and legislative committees regarding constitutional and other legal matters associated with legislation.

ADMITTED TO PRACTICE

State of Alaska, 1977
State of California, 1976 (inactive)
United States District Court, Alaska, 1977

MEMBERSHIPS

Anchorage Bar Association
Alaska State Bar Association
California State Bar Association (inactive)
National Association of Bond Lawyers

EDUCATION

**UNIVERSITY OF THE PACIFIC,
McGEORGE SCHOOL OF LAW**
Sacramento, California
Juris Doctor, 1976

CALIFORNIA STATE POLYTECHNIC COLLEGE
Pomona, California
Bachelor of Arts, Political Science, 1973

REFERENCES

Alaska Industrial Development and Export Authority
480 West Tudor Road
Anchorage, Alaska 99503
Valorie F. Walker
Deputy Director-Finance
269-3000

Alaska Student Loan Corporation
3030 Vintage Boulevard
Juneau, Alaska 99501-7109
Diane Barrans
Finance Director
465-6757

Brian C. Andrews

Financial Consultant, Private Client Group of Merrill Lynch

Brian is a life long resident of Alaska, with twenty-five years of in-state financial management, portfolio management and accounting experience with Banks, Credit Unions, State Government, and Brokerages. After receiving a BS from Colorado State University with majors in finance and accounting, Brian returned to the State with assignments in the financial community as a branch manager for National Bank of Alaska and as the general manager of the Alaska State Employees Federal Credit Union. He then moved on to fulfill the roles of Comptroller, Investment officer and Deputy Commissioner in the Department of Revenue for the State of Alaska. Brian joined Merrill Lynch in January of 1994, where he is responsible for the development of institutional and retail financial services and products to new and existing clients in Alaska. Brian is in charge of the management and financial success of the Juneau office of Merrill Lynch. Brian resides in Juneau, where he actively enjoys the outdoors with his wife and three children.