

SCOMM

118:25

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Chenoweth
3/29/00

CS FOR HOUSE BILL NO. 399(O&G)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY THE HOUSE SPECIAL COMMITTEE ON OIL AND GAS

Offered:

Referred:

Sponsor(s): REPRESENTATIVE CROFT

A BILL

FOR AN ACT ENTITLED

1 "An Act levying and collecting a tax on North Slope natural gas in place if
2 certain requirements relating to its sale and delivery are not met, and imposing
3 a limit on the Department of Natural Resources that relates to the issuance or
4 extension of oil and gas leases containing natural gas that is stranded gas
5 capable of production in paying quantities; and providing for an effective date."

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

7 * Section 1. The uncoded law of the State of Alaska is amended by adding a new
8 section to read:

9 SHORT TITLE. This Act may be known as the Alaska Natural Gas Pipeline Incentive
10 Act of 2000.

11 * Sec. 2. The uncoded law of the State of Alaska is amended by adding a new section
12 to read:

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

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

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

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

9 (4) natural gas located on the North Slope is a valuable resource to the state
10 that has not been produced for sale in the market place, nor made available for in-state
11 utilization by the people of the state;

12 (5) the in-state utilization of North Slope natural gas will provide a more
13 economic and environmentally acceptable source of energy for the people of Alaska;

14 (6) the amount of natural gas located on the North Slope is substantial and, if
15 sold, will generate significant revenue to the state and opportunities and benefits to its people
16 for many years;

17 (7) in order to facilitate the commercialization of North Slope natural gas, it
18 is necessary to provide an incentive to ensure that the cost to North Slope producers not to
19 commercialize, delay commercialization, or inhibit commercialization of North Slope natural
20 gas is prohibitive; and

21 (8) a policy of noncommercialization, delaying commercialization, or inhibiting
22 commercialization, when commercialization is economically feasible, is contrary to the spirit
23 and intent of art. VIII, secs. 1 and 2, Constitution of the State of Alaska.

24 (b) The intent of this Act is to

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

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

29 (3) establish a means by which the state can facilitate the availability for in-
30 state consumption and utilization of North Slope natural gas by the people of Alaska;

31 (4) establish a means by which the state can facilitate the commercialization

1 of North Slope natural gas.

2 * Sec. 3. AS 38.05.180(m) is amended to read:

3 (m) An oil and gas lease must cover a reasonably compact area not exceeding
4 5,760 acres, and may be for a maximum period of 10 years, except that the
5 commissioner may issue a lease for a period not less than five years upon a finding
6 that it is in the best interests of the state. An oil and gas lease shall be automatically
7 extended if and for so long thereafter as oil or gas is produced in paying quantities
8 from the lease or if the lease is committed to a unit approved by the commissioner,
9 but the commissioner shall deny an automatic extension of the lease and may not
10 extend the lease unless the lessee agrees to an amendment of the lease to include
11 a provision by which the lessee is required to contract to sell the gas that is
12 stranded gas, as that term is defined in AS 43.82.900, to a qualified bona fide
13 purchaser. A lease issued under this section covering land on which there is a well
14 capable of producing oil or gas in paying quantities does not expire because the lessee
15 fails to produce oil or gas unless the lessee is allowed reasonable time to place the
16 well on a producing status. A lease issued under this section on which there is a
17 well capable of producing oil or gas in paying quantities must include a provision
18 by which the lessee is required to contract to sell the gas that is stranded gas, as
19 that term is defined in AS 43.82.900, to a qualified bona fide purchaser. Upon
20 extension, the commissioner may increase lease rentals so long as the increased rental
21 rate does not exceed 150 percent of the rate for the preceding year. If drilling has
22 commenced on the expiration date of the primary term of the lease and is continued
23 with reasonable diligence, including such operations as redrilling, sidetracking, or other
24 means necessary to reach the originally proposed bottom hole location, the lease
25 continues in effect until 90 days after drilling has ceased and for so long thereafter as
26 oil or gas is produced in paying quantities. An oil and gas lease issued under this
27 section that [WHICH] is subject to termination by reason of cessation of production
28 does not terminate if, within 60 days after production ceases, reworking or drilling
29 operations are commenced on the land under lease and are thereafter conducted with
30 reasonable diligence during the period of nonproduction. For purposes of this
31 subsection.

1 (1) a "qualified bona fide purchaser" is a public or private entity
2 that enters into an arms-length gas purchase agreement or agreements with a
3 producer or producers if the agreement or agreements do not constitute a related
4 party transaction under generally accepted accounting principles and if the public
5 or private entity has obtained the requisite rights-of-way, licenses, and permits to
6 construct and operate a natural gas transmission system; and

7 (2) if two or more qualified bona fide purchasers offer to purchase
8 the stranded gas, the commissioner shall issue or extend the lease only if the lessee
9 enters into an agreement with the qualified bona fide purchaser that provides the
10 greatest long-term return to the state.

11 * Sec. 4. AS 43.58 is amended by adding new sections to read:

12 Sec. 43.58.210. Tax on certain proven gas reserves. (a) An annual tax is
13 levied each calendar year on the full and true value of taxable property under this
14 chapter.

15 (b) The annual rate of levy is 2 cents per 1,000 cubic feet.

16 Sec. 43.58.220. Property subject to tax. The provisions of this chapter apply
17 to natural gas in place from all state leases on the North Slope having proven gas
18 reserves.

19 Sec. 43.58.230. Assessment; full and true value. (a) The department shall
20 assess taxable property under this chapter to the owner of it at its full and true value
21 as of January 1 of each year.

22 (b) The full and true value of taxable property under this chapter is the
23 estimated price that the taxable property would bring in an open market and under the
24 then prevailing market conditions in a sale between a willing seller and a willing buyer
25 both conversant with the property and with prevailing values. In determining the full
26 and true value of taxable property, the department shall consider all factors that may
27 be known by the department to affect the value of taxable property, including the
28 discounted present value of the expected future net income from the taxable property.

29 Sec. 43.58.240. Assessment roll. The department shall prepare annually the
30 assessment roll for taxation under this chapter. The roll must contain

31 (1) a description of all taxable property;

- 1 (2) the assessed value of all taxable property; and
2 (3) the names and addresses of persons owning or otherwise holding
3 an interest in taxable property.

4 **Sec. 43.58.250. Assessment notice.** On or before April 15 of each year, the
5 department shall send to every owner of taxable property subject to levy and collection
6 of taxes under this chapter named in the assessment roll a notice of assessment
7 showing the assessed value of the property. The notice of assessment is effective on
8 the date of its mailing.

9 **Sec. 43.58.260. Appeal.** (a) A person aggrieved by the action of the
10 department in making an assessment may appeal that action and obtain a hearing upon
11 its validity before the department by filing written objections to the assessment not
12 later than 20 days after the effective date of the assessment notice.

13 (b) The procedures for conduct of the hearing and preliminary activities to it
14 shall be in accordance with AS 44.62.350, 44.62.430, 44.62.450, 44.62.460, 44.62.480,
15 44.62.500 - 44.62.550, 44.62.590, and 44.62.610 - 44.62.640. For the purposes of this
16 section, the term "respondent" used in those sections shall be considered to include the
17 person aggrieved by action of the department. The department shall provide by
18 regulation for notices of hearing under this section to interested persons. At the
19 hearing, the appellant bears the burden of proof. In the absence of this proof, the
20 assessment is to be upheld by the department. If the department, after hearing,
21 determines that a correction of the assessment is warranted, the department shall
22 correct the assessment and the assessment roll.

23 (c) Within 30 days after the decision by the department following the hearing,
24 a person aggrieved by that decision may appeal to the superior court.

25 **Sec. 43.58.270. Certification.** On or before June 15 of each year the
26 department shall certify the final assessment roll and mail to the owner, operator, or
27 other person filing a return and paying tax on the taxable property a statement of the
28 amount of tax due.

29 **Sec. 43.58.280. Supplemental assessment rolls.** The department shall include
30 property omitted from the assessment roll on a supplemental roll, using the procedures
31 set out in AS 43.58.230 - 43.58.250 and 43.58.290 - 43.58.300 for the original roll.

1 **Sec. 43.58.290. Investigation.** (a) The department may make an investigation
2 of property on which a return has been filed or on property for which a return has not
3 been filed. In either case, the department shall make its own valuation of the taxable
4 property, which is prima facie evidence of the property's full and true value.

5 (b) An employee or agent of the department may enter any premises necessary
6 for the investigation during reasonable hours and may examine property and other
7 appropriate records. The owner of taxable property, upon request, shall furnish to the
8 employee or agent of the department reasonable assistance required for the
9 investigation. If an employee or agent of the department seeking to enter any premises
10 necessary for an investigation under this section or to obtain reasonable assistance
11 required for an investigation under this section is refused entry or assistance, the
12 prior court may, after reasonable notice to and hearing of the owner, order the
13 owner to allow the entry or to furnish the assistance.

14 (c) For the purpose of the investigation of property, the owner, operator, or
15 other person filing a return and paying the tax on the taxable property or a
16 representative may be required to appear for examination under oath by the
17 department.

18 **Sec. 43.58.300. Returns and payment of tax.** (a) A return of taxable
19 property shall be submitted on or before February 1 on the form prescribed by the
20 department based on property values existing on January 1 of each calendar year,
21 except as otherwise provided in this chapter. The return shall be submitted by

22 (1) a person who is the owner of the property, or who controls that
23 property as agent, or on account of any other person;

24 (2) a guardian or other person who has charge of taxable property
25 belonging to a minor or other person;

26 (3) the trustee of a trust estate holding taxable property in trust for the
27 benefit of another person;

28 (4) the executor or administrator of a deceased person's estate that
29 includes taxable property;

30 (5) the receiver of a corporation who has its assets in hand.

31 (b) The person required to submit the return specified under (a)(1) of this

1 section is primarily liable for payment of the tax levied by this chapter. The persons
2 or estates specified in (a)(2) - (5) of this section in whose behalf the tax levied by this
3 chapter is to be paid are secondarily liable for payment of the tax. With the written
4 approval of the department, an operator or nonoperator of the lease or property may
5 submit returns or make payment of the tax levied under this chapter on behalf of the
6 operator or nonoperator and other persons as the department may approve.

7 (c) The tax levied under this chapter is payable to the department on or before
8 June 30 of each year or in installments at the times and under the conditions of the
9 department may by regulation require.

10 (d) With the prior written approval of the department, a person submitting
11 returns or making payments as required under this chapter for more than one taxable
12 property may regard the leases or properties as a single taxable property for purposes
13 of submitting those reports or making those payments.

14 (e) A person making payment of the tax levied under this chapter on behalf
15 of one or more other persons owning or otherwise holding an interest in a taxable
16 property may withhold a proportionate share of the payment from any proceeds or
17 other benefits from the taxable property owed to any person on whose behalf the
18 payment is made. Unless otherwise specifically provided by written contract or
19 agreement, the person so withholding a proportionate share of the tax levied under this
20 chapter incurs no liability to those from whom it is withheld by virtue of having made
21 the withholding.

22 (f) The department may, by written notice, require a person filing a return to
23 submit additional information to the department no later than 30 days after the notice.

24 **Sec. 43.58.310. Remedy.** The remedy of distraint on property set out in
25 AS 43.20.270 applies to the tax, penalty, and interest levied by this chapter.

26 **Sec. 43.58.320. Regulations.** The department may adopt regulations in
27 accordance with AS 44.62 (Administrative Procedure Act) as appropriate to administer
28 and enforce this chapter.

29 **Sec. 43.58.395. Definitions.** In this chapter,

30 (1) "gas" and "natural gas" have the meanings given to "gas" in
31 AS 43.55.900;

(2) "lease or property" means any right, title, or interest in or the right to produce or recover gas, including

(A) a mineral interest;

(B) a leasehold interest;

(C) a working interest, a royalty interest, an overriding royalty interest, production payment, net profit interest, or any other interest in a lease, concession, joint venture, or other agreement for gas exploration, development, or production;

(D) a working interest, a royalty interest, an overriding royalty interest, production payment, net profit interest, or any other interest in an agreement for unitization or pooling under provisions of 26 U.S.C. 614(b)(3) (Internal Revenue Code);

(3) "North Slope" means the area of Alaska lying north of 68 degrees North latitude;

(4) "operator" means the person conducting the exploration, development, or production operation for a lease or property;

(5) "proven gas reserves" means the volume of gas in a known deposit that geological and engineering information indicates is recoverable in the future under prevailing economic conditions and technology.

* Sec. 5. The uncoded law of the State of Alaska is amended by adding a new section to read:

CONDITIONAL EFFECT OF SECTION 4 OF THIS ACT. (a) Section 4 of this Act takes effect under sec. 9 of this Act unless, no later than December 31, 2002, not less than 650,000,000,000 cubic feet of North Slope natural gas, as that term is defined in AS 43.58.395, added by sec. 4 of this Act, that is undeveloped on the effective date of this section, is annually committed by contract for sale and timely delivery as commercially marketable gas to a qualified bona fide purchaser, not for enhanced recovery operations, for a contract term of at least 20 years, with delivery scheduled to begin no later than December 31, 2008.

(b) For the purposes of (a) of this section, "qualified bona fide purchaser" has the meaning given in AS 38.05.180(m), as amended by sec. 3 of this Act.

1 * Sec. 6. The uncoded law of the State of Alaska is amended by adding a new section
2 to read:

3 CONDITIONAL EFFECT OF SECTION 4 OF THIS ACT. Section 4 of this Act takes
4 effect under sec. 10 of this Act

5 (1) if, under sec. 5 of this Act, the provisions of AS 43.58.210 - 43.58.395 did
6 not take effect; and

7 (2) unless, no later than December 31, 2008, the cubic feet of North Slope
8 natural gas, as that term is defined in AS 43.58.395, added by sec. 4 of this Act, that is
9 undeveloped on the effective date of this section, that has been committed by contract for sale
10 and timely delivery as commercially marketable gas as required by sec. 5 of this Act is
11 deliverable as provided by the appropriate terms of the contract.

12 * Sec. 7. The uncoded law of the State of Alaska is amended by adding a new section
13 to read:

14 ENFORCEMENT OF PROVISIONS OF SECS. 5 AND 6 OF THIS ACT. On or after
15 January 1, 2003, any qualified voter may apply to the superior court to compel the superior
16 court, by mandamus or otherwise, to require the commissioner of revenue to perform the
17 duties of the commissioner under AS 43.58.210 - 43.58.395, added by sec. 4 of this Act, if
18 sec. 4 of this Act has taken effect.

19 * Sec. 8. The uncoded law of the State of Alaska is amended by adding a new section
20 to read:

21 CONDITIONAL DELETION OF REFERENCES TO MATERIAL ENACTED BY
22 SECTION 4 OF THIS ACT. If, before January 2, 2009, the provisions of AS 43.58.210 -
23 43.58.395 have not taken effect, the revisor of statutes shall delete from the Alaska Statutes
24 references to the following sections added by sec. 4 of this Act: AS 43.58.210, 43.58.220,
25 43.58.230, 43.58.240, 43.58.250, 43.58.260, 43.58.270, 43.58.280, 43.58.290, 43.58.300,
26 43.58.310, 43.58.320, and 43.58.395.

27 * Sec. 9. If, under sec. 5 of this Act, sec. 4 of this Act takes effect, it takes effect
28 January 1, 2003.

29 * Sec. 10. If, under sec. 6 of this Act, sec. 4 of this Act takes effect, it takes effect
30 January 1, 2009.

LEGAL SERVICES

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

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Juneau, Alaska 99801-1182
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MEMORANDUM

March 31, 2000

SUBJECT: Draft CSHB 399(O&G), levying a tax on North Slope natural gas in place under certain conditions relating to its timely development, and setting limits on issuance or extension of oil and gas leases -- sectional analysis (Work Order No. 1-LS1474I)

TO: Representative Jim Whitaker, Chair
House Special Oil and Gas Committee

FROM: Jack Chenoweth
Assistant Revisor of Statutes

The draft (1) provides for levy and collection of a tax on certain North Slope natural gas in place under circumstances in which the gas is not timely developed, and (2) sets limits on the authority of the commissioner of natural resources to issue or extend an oil and gas lease unless the lessee complies with requirements relating to the development and sale of stranded gas.

Bill section 1, an uncodified provision, gives the measure a short title.

Bill section 2, also uncodified, sets out legislative findings and a statement of legislative intent for the measure.

Bill section 3: AS 38.05.180(m) sets out the terms and conditions relating to the duration of an oil and gas lease both upon initial issuance of the lease and for the extension of the lease when oil or gas is produced in paying quantities. The insertions at page 3, lines 9 - 13 (for lease extensions) and at page 3, lines 16 - 19 (for leases initially issued) add an additional requirement prohibiting issuance or extension, as appropriate, of a lease without a commitment by the lessee or prospective lessee "to contract to sell the gas [produced from the lease] that is stranded gas . . . to a qualified bona fide purchaser." The provisions rely on the definition of "stranded gas" under the Alaska Stranded Gas Development Act,

AS 43.82,^{1/} and, at the top of page 4, supply a definition for the term "qualified bona fide purchaser."

Bill section 4: The bill section provides for levy and collection of the gas reserves tax --

-- AS 43.58.210 imposes the levy as an annual tax and sets the tax rate (\$0.02 per Mcf);

-- AS 43.58.220 defines the property subject to the tax as North Slope state leases with proven gas reserves;

-- AS 43.58.230 sets the standard for assessment of the value of the gas reserves;

-- AS 43.58.240 - 43.58.300 are "boilerplate" provisions that spell out how the gas reserves property assessment roll shall be prepared and prescribes the procedures that attend preparation and submission of the tax return and payment of the tax;

-- AS 43.58.310 applies the general remedy of distraint on property as an enforcement remedy;

-- AS 43.58.320 authorizes adoption of implementing regulations for the tax; and

-- AS 43.58.395 sets out necessary definitions for terms used in the chapter.

Bill section 5: The section sets a first condition on the taking effect of the gas reserves tax: the tax is to take effect *unless* the terms of the condition are met--

. . . no later than December 31, 2002, not less than 650,000,000,000 cubic feet of North Slope natural gas . . . that is undeveloped on the effective date of this section, is annually committed by contract for sale and timely delivery as commercially marketable gas to a qualified bona fide purchaser, not for enhanced recovery operations, for a contract term of at least 20 years, with delivery scheduled to begin no later than December 31, 2008.

If the condition is met, the tax does not take effect.

Bill section 6: The section sets an alternate condition on the taking effect of the gas reserves tax: the tax is to take effect if the provisions of the tax have not taken effect at an earlier time and *unless* the terms of the following condition are met--

^{1/} The definition of "stranded gas" under that Act is set out in AS 43.82.900(13):

"stranded gas" means gas that is not being marketed due to prevailing costs or price conditions as determined by an economic analysis by the commissioner for a particular project.

no later than December 31, 2008, the cubic feet of North Slope natural gas . . . that is undeveloped on the effective date of this section, that has been committed by contract for sale and timely delivery as commercially marketable gas as required by sec. 5 of this Act is deliverable as provided by the appropriate terms of the contract.

If this condition is met, the tax does not take effect.

Bill section 7: In the event a question arises as to compliance with either of the appropriate conditions that keeps the reserve tax from taking effect, this provision gives "any qualified voter" standing to challenge a decision by the commissioner of revenue not to give effect to the tax. The language draws upon the text of similar authority set out in article VI, section 11, Constitution of the State of Alaska, the basis for enforcement of legislative redistricting.

Bill section 8: Under this bill section, if, because the appropriate conditions are complied with, the reserves tax does not take effect, the revisor of statutes is directed to repeal the provisions of the tax.

Bill section 9 gives the first condition giving effect to the gas reserves tax a January 1, 2003, effective date.

Bill section 10 gives the alternate condition giving effect to the gas reserves tax a January 1, 2009, effective date.

Except for the bill section setting out conditional provisions that would cause the tax to take effect in 2003 or 2009, other sections of the measure take effect 90 days after becoming law.

JBC:pl
00-119.plm



April 4th, 2000

The Honorable Jim Whitaker
Chairman, House Oil and Gas Committee
Alaska House of Representatives
State Capitol Room 13
Juneau, AK 99801
Fax: (907)465-2070

Chevron U.S.A. Production Company
Non-Operated Joint Ventures
P.O. Box 36366
Houston, TX 77236
Fax 281 561 3880

Re: HB 399, Alaska Natural
Gas Pipeline Incentive Act

Dear Representative Whitaker:

Chevron opposes HB 399 and is writing to express its opposition to that bill which proposes to enact an ad valorem tax on natural gas reserves on the North Slope.

The state has a choice in whether it helps investment opportunities in Alaska become more competitive or whether it makes them less competitive. Destabilizing Alaska's tax regime and increasing property taxes – by enacting a new gas reserves tax – makes Alaska less competitive in attracting new investments. We feel this tax only creates an additional expense for the gas producers and does not create an incentive for the gas owners to speed up the development of the Alaska gas resource.

We have read the testimony that we understand was presented to you today by Ms. Judy Brady of our industry trade association AOGA, and we support those statements.

We believe the legislature is interested in removing obstacles to the development of Alaska gas reserves, however we feel House Bill 399 does just the opposite. Chevron would favor gas production incentives to encourage North Slope gas projects as opposed to non-production penalties.

Sincerely,

A handwritten signature in dark ink, appearing to read "Corry Woolington", written over a horizontal line.

Corry Woolington
Land Manager – Alaska

Cc: (See Attached)



April 4th, 2000

The Honorable Jim Whitaker
Chairman, House Oil and Gas Committee
Alaska House of Representatives
State Capitol Room 13
Juneau, AK 99801
Fax: (907)465-2070

Chevron U.S.A. Production Company
Non-Operated Joint Ventures
P.O. Box 36366
Houston, TX 77236
Fax 281 561 3880

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Corry Woolington
Land Manager – Alaska

Cc: (See Attached)



Resource Development Council for Alaska, Inc.

121 West Fireweed Lane, Suite 250, Anchorage, Alaska 99503-2035
(907) 276-0700 Fax: (907) 276-3887 e-mail: Resources@akrdc.org

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April 4, 2000

Representative Jim Whitaker
Alaska State Legislature
Juneau, AK 99801

Dear Representative Whitaker:

The Resource Development Council for Alaska, Inc., (RDC) is writing to comment on HB 399, which proposes an ad valorem tax on natural gas reserves on the North Slope. Historically, RDC and its members have opposed measures that could eventually lead to the taxation of resource reserves. Consistent with previous action and policy, RDC opposes this measure, given HB 399 could create a precedent leading to the taxation of other undeveloped resources, including minerals and timber.

RDC is an Alaskan, statewide membership-funded organization working on behalf of Alaska's basic industries, including tourism, fishing, oil and gas, mining and timber. RDC's membership includes the aforementioned industries, as well as sectors which support those industries, such as construction, labor and other technical service providers, individuals, and Native corporations.

While some may believe that a resource reserve tax would create an incentive to speed up the development of the resource or a specific project, we believe HB 399 would do just the opposite. Such a tax creates additional expenses and does not change the inherent risks and economics of a project. In fact, a tax on any resource in the ground could send a chill through current and potential future investors and compromise the progress Alaska had made in improving its business climate.

As existing and new companies consider business opportunities in Alaska's resource sectors, tax regimes, permitting and the fundamental economics of a project are paramount in determining where new capital investments will be targeted. Alaska has no choice but to compete with other resource-rich provinces across the globe, and a resource reserves tax would make Alaska less attractive to investors by creating more risks and obstacles to development.

Since the initial development of Prudhoe Bay, our members in the oil and gas industry have invested more than \$800 million in researching the commercialization of North Slope gas. Today several companies are aggressively pursuing a number of gas

commercialization options. With these efforts, one or more economically viable projects will eventually be identified, especially given recent breakthroughs and the application of new technology.

However, to force a project through at this point with a gas reserves tax only increases the risks and expenses for those attempting to commercialize the resource. It would also send a negative signal to industry when several entities are looking seriously for ways to bring North Slope gas to market. Moreover, the gas reserves tax would damage government-industry relations and could discourage interest and investment in our state.

In summary, our members in the oil and gas sectors strongly believe HB 399 does not represent an incentive for future development of North Slope gas resources. They consider this legislation punitive in nature and warn it could hinder us from achieving our common goal of commercializing North Slope gas. As for our members in the timber and minerals sectors, they see disturbing red flags in HB 399, fearing it would set a precedent for a resource reserve tax, which in turn would dampen enthusiasm for future investment and development.

Our members agree that the driving force behind a successful project should be good economics, favorable government-industry relations and an efficient and predictable permitting system – not a resource reserve tax which could do more harm than good.

Sincerely,

RESOURCE DEVELOPMENT COUNCIL
for Alaska, Inc.


Ken Freeman
Executive Director

cc: House Oil and Gas Committee
House Speaker Brian Porter
House Resources Co-chair Bill Hudson
House Resources Co-Chair Beverly Masek



Resource Development Council for Alaska, Inc.

121 West Fireweed Lane, Suite 250, Anchorage, Alaska 99503-2035
(907) 276-0700 Fax: (907) 276-3887 e-mail: Resources@akrdc.org

Founded 1975

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Kenneth J. Freeman

1999-2000 EXECUTIVE COMMITTEE

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Senator Frank Murkowski
Congressman Don Young
Governor Tony Knowles

April 4, 2000

Representative Jim Whitaker
Alaska State Legislature
Juneau, AK 99801

Dear Representative Whitaker:

The Resource Development Council for Alaska, Inc., (RDC) is writing to comment on HB 399, which proposes an ad valorem tax on natural gas reserves on the North Slope. Historically, RDC and its members have opposed measures that could eventually lead to the taxation of resource reserves. Consistent with previous action and policy, RDC opposes this measure, given HB 399 could create a precedent leading to the taxation of other undeveloped resources, including minerals and timber.

RDC is an Alaskan, statewide membership-funded organization working on behalf of Alaska's basic industries, including tourism, fishing, oil and gas, mining and timber. RDC's membership includes the aforementioned industries, as well as sectors which support those industries, such as construction, labor and other technical service providers, individuals, and Native corporations.

While some may believe that a resource reserve tax would create an incentive to speed up the development of the resource or a specific project, we believe HB 399 would do just the opposite. Such a tax creates additional expenses and does not change the inherent risks and economics of a project. In fact, a tax on any resource in the ground could send a chill through current and potential future investors and compromise the progress Alaska had made in improving its business climate.

As existing and new companies consider business opportunities in Alaska's resource sectors, tax regimes, permitting and the fundamental economics of a project are paramount in determining where new capital investments will be targeted. Alaska has no choice but to compete with other resource-rich provinces across the globe, and a resource reserves tax would make Alaska less attractive to investors by creating more risks and obstacles to development.

Since the initial development of Prudhoe Bay, our members in the oil and gas industry have invested more than \$800 million in researching the commercialization of North Slope gas. Today several companies are aggressively pursuing a number of gas

commercialization options. With these efforts, one or more economically viable projects will eventually be identified, especially given recent breakthroughs and the application of new technology.

However, to force a project through at this point with a gas reserves tax only increases the risks and expenses for those attempting to commercialize the resource. It would also send a negative signal to industry when several entities are looking seriously for ways to bring North Slope gas to market. Moreover, the gas reserves tax would damage government-industry relations and could discourage interest and investment in our state.

In summary, our members in the oil and gas sectors strongly believe HB 399 does not represent an incentive for future development of North Slope gas resources. They consider this legislation punitive in nature and warn it could hinder us from achieving our common goal of commercializing North Slope gas. As for our members in the timber and minerals sectors, they see disturbing red flags in HB 399, fearing it would set a precedent for a resource reserve tax, which in turn would dampen enthusiasm for future investment and development.

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RESOURCE DEVELOPMENT COUNCIL
for Alaska, Inc.


Ken Freeman
Executive Director

cc: House Oil and Gas Committee
House Speaker Brian Porter
House Resources Co-chair Bill Hudson
House Resources Co-Chair Beverly Masek

**The Alaska Support Industry Alliance
Testimony on HB399
April 4, 2000
Submitted by Karen Cowart**

Good afternoon Mr. Chairman, Thank you for the opportunity to provide the Alaska Support Industry Alliance position on House Bill 399.

As introduction, I am the General Manager of the Alliance. Our membership includes nearly 350 businesses that contract directly with producer companies to provide products and services in support of oil and gas activity. Collectively we employ 29,000 people in Alaska ... 25,000 are permanent residents of the state. The Alliance mission is to advocate safe and environmentally sound petroleum exploration, development and production for the benefit of all Alaskans.

The Alaska Support Industry Alliance expresses serious alarm over House Bill 399 – Taxation on in-place North Slope Natural Gas. We believe the bill's provisions and message is extremely harmful to our industry and sends a negative signal to any current or potential oil and gas investor.

HB399 acknowledges that "natural gas located on the North Slope is a valuable resource to the state that has not been produced for sale in the marketplace, nor made available for in-state utilization by the people of the state." What it fails to recognize is *why* there has been little or no production. The vast natural gas reserves on the North Slope are *indisputably valuable* to the state and to the companies with gas-rich leases. These companies *would* develop the resource if *revenues* could sufficiently exceed expenses. They do not. Not yet. Even the Joint Special Committee on Mergers' experts agrees "Alaskan natural gas is not expected to be commercially viable for at least 5 to 10 years."

Attempting to coerce unprofitable development of natural gas under the HB399 scenario is akin to taxing the farmer for NOT planting a profitless crop. It is comparable to imposing a stiff fee on the commercial fisherman who is unwilling to harvest salmon in untested and unforgiving seas, at non-economic prices. It is the same as taxing the miner whose undeveloped claim now lies too far from reasonable transportation. Your proposed levy is just like assessing the sawmill for NOT spending a fortune to airlift timber from otherwise inaccessible forestlands.

HB399 doesn't levy taxes on farmers, fishermen, miners or loggers. It singles out the oil and gas industry.

The sponsor references HB399 levy as an "incentive." This takes a myopic view of the very global, very competitive oil and gas industry. Alaska may be rich in natural gas, but so are many, many other areas of the world ... areas with infrastructure already in place, areas with less harsh environments, areas that cost less to do business in. A gas reserves tax only increases the risks and reduces the benefits for gas owners. Let's call the kettle black. HB399 is the "T-word" and that is a *dis-incentive*. It's also unfair and irresponsible.

Original North Slope oil and gas leases were not sold with the promise, assumption or expectation that new taxes on undeveloped resources would be levied as part of the lease agreement. If that was the case, we can safely assume that far fewer leases would have been sold. How can we justify placing additional fiscal provisions on an already agreed-upon contract between the state and leaseholders? At best, this brands Alaska with an image of instability. We cannot afford that.

The Alaska Support Industry Alliance has always supported commercial development of natural gas on the North Slope, in Cook Inlet and wherever else the resource abounds in our state. We do not pretend to know what is the best method of production, the best resulting commodity, the best way or route to transport. Only those who must invest and risk huge amounts of money to bring natural gas to market can say what is most feasible. By all indications, there is enough natural gas on the North Slope to make several options possible.

We are encouraged by the number of groups looking at ways to make North Slope natural gas commercially viable. The ARCO-led sponsor group is spending millions on economic research to advance an Alaska LNG project. Yukon Pacific is analyzing a gas pipeline route along its permits. The Alaska Natural Gas to Liquids Company is exploring ways to adapt proven South African technologies to the Arctic. Exxon Mobile is discussing construction of a commercial gas to liquids plant, and BP Exploration has plans for a GTL pilot project. And several companies are addressing the potential of a gas sales pipeline to the Lower 48.

These could be very exciting for Alaska *if* we don't discourage companies from investing in all projects to commercialize North Slope Natural Gas. The timing couldn't be better to deliver true incentives to develop natural gas here in ALASKA. Industrialized countries worldwide recognize that natural gas will play a more prominent role in energy consumption. In fact a landmark study from the

American Gas Association entitled *Fueling the Future* says that new technologies could boost natural gas demand by 60% in the next 20 years! Is Alaska going to be poised to get a piece of that gigantic pie?

If so, we better project an image of stability, not one of taxes. As business people, we urge government to leave the economics of business-to-business people. We urge you to carry out your constitutional duty to have the state "encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest." Additional taxes serves to discourage development, leaving Alaska vulnerable to loss of potential investors and future state revenues.

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Walter J. Hickel

Box 101700
Anchorage, Alaska 99510-1700
907-276-7400

April 4, 2000

Representative Jim Whittaker, Chairman
House Special Committee on Oil and Gas
Alaska State Capitol
Juneau, AK

BY FAX (907) 465-2070

Dear Jim,

I would like to congratulate you and the Committee for giving serious consideration to additional incentives the State of Alaska can offer its leaseholders to commercialize Alaska North Slope Natural Gas.

As I see it, the state has three major options as an owner:

- It can work with the producers and pipeline companies to promote gas sales. It should do this by continuing the state offices abroad, supporting the property tax exemption option proposed by the Mayor's group, and otherwise working to improve project economics and market interest.*
- It can take back the gas interest if it determines the gas producers are not fulfilling their leasehold commitment. I considered this option as Governor with the Point Thompson leases, but as far as I know, the option has not been used with any of our major untapped gas fields at present.*
- It can charge a tax on gas reserves that are not produced, reflecting the argument that the gas is more valuable "in the ground" than "in the market" in competition with supplies leaseholders sell from other areas.*

Your bill, HB 399, puts the third option in place and strengthens the second option. I hope a reserve tax never needs to be used, but it is high time – given the fact gas was discovered over 30 years ago – that the option is there. Other nations have much stronger "disincentives" to a lack of production, and I believe that is part of the reason producers put us off as an option for the Asia marketplace.

With best regards,


Walter J. Hickel

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Box 101700
Anchorage, Alaska 99510-1700
907-270-7400

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Walter J. Hickel



ARCO Alaska, Inc.
Post Office Box 100360
Anchorage, Alaska 99510-0360
Telephone (907) 265-6512
Facsimile (907) 265-6922

Kevin O. Meyers
President

April 4, 2000

The Honorable Jim Whitaker
Chairman, House Oil and Gas Committee
Alaska House of Representatives
State Capitol Room 13
Juneau, Alaska 99801
Via Fax (907) 465-3004

Re: HB 399 Gas Reserves Tax

Dear Representative Whitaker:

I have had the opportunity to review HB 399 as introduced as well as the draft Committee Substitute Version I that you provided late last week. ARCO Alaska, Inc. opposes both the original bill and the draft committee substitute.

This bill is a new tax on the oil industry and is not an incentive to market and sell Alaska North Slope gas. This legislation does not reduce the cost of a North Slope gas project or lessen the risk of such a project for investors. This legislation will not facilitate the entry of a North Slope gas project into the very competitive world market.

We support the AOGA testimony in opposition to this bill and look forward to the opportunity to provide ARCO Alaska's comments in more detail when public testimony is taken about this bill.

Sincerely,


Kevin O. Meyers

c: Members of House Oil and Gas Committee
Rep. Eric Croft
Alaska Oil and Gas Association



ARCO Alaska, Inc.
Post Office Box 100360
Anchorage, Alaska 99510-0360
Telephone (907) 265-6512
Facsimile (907) 265-6922

Kevin O. Meyers
President

April 4, 2000

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Sincerely,


Kevin O. Meyers

c: **Members of House Oil and Gas Committee
Rep. Eric Croft
Alaska Oil and Gas Association**



2132 RAILROAD AVE.
ANCHORAGE, AK 99501
FAX 807 276-3448
TEL 807 276-4303

April 4, 2000

Alaska State Legislature
Representative Jim Whitaker, Chair

Dear Mr. Whitaker:

As an Alaska business owner, I will not support the Natural Gas Reserves Tax HB399. This bill will only increase the risks and reduce the benefits for gas owners only. It will not achieve the common goal of commercializing North Slope gas. In my opinion the Legislature should be exploring a tax revenue option and not taxing the State's major revenue industries.

Again, I am totally opposed to this tax bill and believe that the Legislature should be committing to commercializing gas for the North Slope.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Faulkner'.

Richard Faulkner
President



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ANCHORAGE, AK 99501
FAX 907 278-3448
TEL 907 278-4303

April 4, 2000

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Richard Faulkner
President



P.O. Box 230126
Anchorage, Alaska 99523-0126
phone (907) 562-5818
fax (907) 563-4721

April 04, 2000

Representative Jim Whitaker, Oil & Gas Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99801-1182

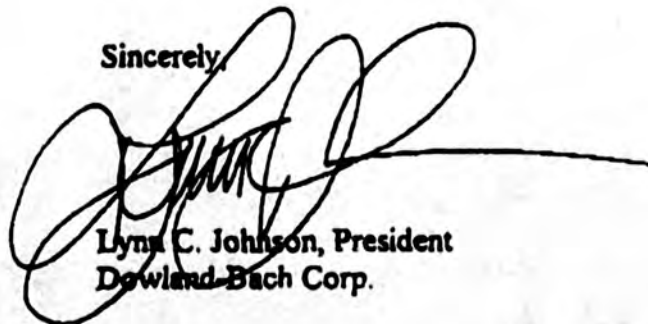
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As majority owner and president of a company that does a great deal of business with the major oil producers in Alaska and other worldwide locations, I hate to see new taxes implemented which clearly state that Alaska is not a good place to do business. In the long run, with oil and gas being strictly a commodity, producers will look elsewhere to do business, thus hurting businesses like mine who depend on these customers and their building of systems and buying of components in Alaska.

In summary, I would urge you to bury HB 399 in committee and have no further hearings on this bill. A gas reserves tax such as this one will strongly discourage investment in Alaska, and will not encourage commercialization of North Slope gas reserves. Thank you for considering my opinion and please call if I can answer any questions on this or any other issue.

Sincerely,



Lynn C. Johnson, President
Dowland-Bach Corp.

■ ■
DOWLAND-BACH

db

P.O. Box 230126

Anchorage, Alaska 99523-0126

phone (907) 562-5818

fax (907) 563-4721

April 04, 2000

Representative Jim Whitaker, Oil & Gas Committee
Alaska State Legislature
State Capitol
Juneau, Alaska 99801-1182

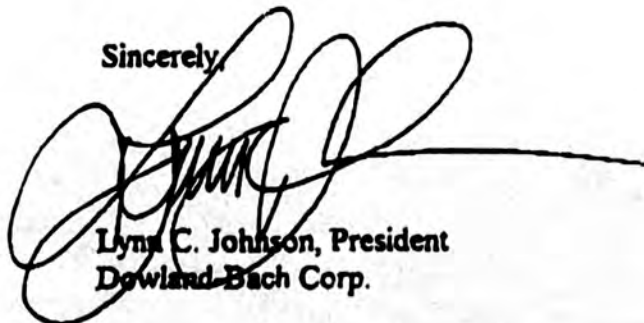
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Sincerely,



Lynn C. Johnson, President
Dowland-Bach Corp.



ELECTRIC SUPPLY

3360 TRAILER ROAD FAIRBANKS, ALASKA 99709
PH: (907) 474-2075 FAX: (907) 474-2076

April 4, 2000

RE: HB399 Natural Gas Reserves Tax

Dear Representative Jim Whitaker,

It has come to my attention that a hearing by the House Oil & Gas Committee is meeting today to discuss the passage of HB399, Natural Gas Reserves Tax Bill. The passage of this bill would significantly put an unnecessary economic burden on these companies. At the present time it seems redundant to develop this resource and be forced into being taxed for a resource that is not currently needed and not yet economically viable.

Is it economically sound to force companies to spend millions of dollars to commercialize this resource when it has been found that to do so, would be more costly then the benefits received? There will come a time when technology will afford us the expertise to not only develop this resource but also to make it profitable to all. This is not the time. Instead we should be considering incentives to develop the North Slope gas.

I urge all involved in this HB399, to weigh the costs and the potentially damaging effect it can have on Alaska, to these companies, and to the people that live here.

Sincerely,

A handwritten signature in cursive script that reads 'Nancy Trunnell'.

Nancy Trunnell
Manager



ELECTRIC SUPPLY

3350 TRAILER ROAD FAIRBANKS, ALASKA 99709
PH: (907) 474-2075 FAX: (907) 474-2076

April 4, 2000

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Nancy Trunnell
Manager

*not offered—
no second hearing in O&G*

Discontinued 4/4

1-LS1474VL.1
Chenoweth
4/4/00

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 399(O&G), Draft Version "I"

1 Page 1, line 1, following "on":

2 Insert "certain"

3 Page 8, following line 19:

4 Insert a new bill section to read:

5 "* Sec. 5. The uncoded law of the State of Alaska is amended by adding a new section
6 to read:

7 LESSEE AUTHORIZED TO SURRENDER LEASE. To avoid liability under
8 AS 43.58, added by sec. 4 of this Act, for payment of the tax on certain proven North Slope
9 gas reserves, a lessee who owns gas subject to the provisions of AS 43.58 may, consistent
10 with the regulations adopted by the Department of Natural Resources under authority of
11 AS 38.05.020 relating to surrenders of rights in land held under lease, surrender the lessee's
12 rights under the lease to the Department of Natural Resources if the lessee surrenders the
13 rights no later than December 31, 2002, and complies with all applicable requirements of the
14 department's regulations and of the lease that relate to surrender of the lessee's rights in it."

15 Renumber the following bill sections accordingly.

16 Page 8, line 23:

17 Delete "sec. 9"

18 Insert "sec. 10"

19 Page 9, line 4:

20 Delete "sec. 10"

21 Insert "sec. 11"

1 Page 9, line 5:

2 Delete "sec. 5"

3 Insert "sec. 6"

4 Page 9, line 10:

5 Delete "sec. 5"

6 Insert "sec. 6"

7 Page 9, line 14:

8 Delete "SECS. 5 AND 6"

9 Insert "SECS. 6 AND 7"

10 Page 9, line 27:

11 Delete "sec. 5"

12 Insert "sec. 6"

13 Page 9, line 29:

14 Delete "sec. 6"

15 Insert "sec. 7"

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 399(O&G), Draft Version "I"

1 **Page 1, line 1, following "on":**

2 **Insert "certain"**

3 **Page 4, line 18, following "reserves":**

4 **Insert "except gas from a lease that before, on, or after the effective date of this**
5 **section is determined to be necessary for reinjection into a reservoir in the course of enhanced**
6 **recovery operations ordered or approved by the Alaska Oil and Gas Conservation**
7 **Commission in accordance with AS 31.05.030 and regulations adopted under authority of that**
8 **section"**

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 399(O&G), Draft Version "I"

1 **Page 1, line 1, following "on":**

2 **Insert "certain"**

3 **Page 4, line 18, following "reserves":**

4 **Insert "except gas from a lease that before, on, or after the effective date of this**
5 **section is determined to be necessary for consumption or use in production operations for the**
6 **lease or that is to be sold or otherwise transferred by the lessee to another producer for**
7 **consumption or use in production operations involving North Slope oil and gas production**
8 **facilities"**

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 399(O&G), Draft Version "I"

1 Page 1, line 4:

2 Delete "stranded gas"

3 Page 3, line 12:

4 Delete "stranded gas, as that term is defined in AS 43.82.900,"

5 Insert "produced from the lease and delivered, in good and merchantable
6 condition and pipeline quality, on the lease or at another mutually agreed location"

7 Page 3, line 18:

8 Delete "stranded gas, as that term is defined in AS 43.82.900,"

9 Insert "produced from the lease and delivered, in good and merchantable
10 condition and pipeline quality, on the lease or at another mutually agreed location"

11 Page 4, line 8:

12 Delete "stranded"

AMENDMENT

OFFERED IN THE HOUSE

TO: CSHB 399(O&G), Draft Version "I"

1 Page 4, line 2:

2 Delete "an arms-length"

3 Insert "a"

4 Page 4, line 3:

5 Delete "producer or producers if the agreement or agreements do not constitute

6 a related party transaction under generally accepted accounting principles"

7 Insert "lessee or lessees"



REPRESENTATIVE ERIC CROFT

Memorandum

To: Jack Chenoweth

CC: Rep. Jim Whitaker *JW*

From: Rep. Croft *EC*

Date: 03/24/00

Re: HB 399 changes

Here are some changes to HB 399 that we would like in a blank committee CS form.

- 1) ~~Let us eliminate the billion-dollar hammer and base it on a flat rate based on volume. \$.20/MCF~~ *.02/MCF*
- 2) ~~Page 3, line 3 and have it read like this:~~
~~"The provisions of this chapter apply to natural gas in place from state leases in a recognized oil and gas unit reserves over 1 trillion cubic feet"~~
- 3) Delete definition of North Slope since no other reserve has a trillion cubic feet
- 4) Page 7, line 6 after "technology" insert "as determined by the AOGCC"
- 5) Take out the references to the commissioners.
 Page 7, line 10 delete "the commissioner of natural resources of natural resources certifies"
 Page 7, line 21, delete "the commissioner of labor and workforce development certifies"
- 6) Page 7, line 11, change 500,000,000,000 to 650,000,000,000.

LARRY & Jim,
LET ME KNOW WHAT YOU THINK
This shall be known as
new Sec. Nat Gas Pipeline
West Act of 2000 *EC*

new title

Subject: Questions re draft CSHB 399 ()

Date: Fri, 24 Mar 2000 16:47:22 -0900

From: Jack Chenoweth <Jack_Chenoweth@legis.state.ak.us>

Organization: Alaska State Legislature

To: Sam Shepard <Sam_Shepard@legis.state.ak.us>

>From the instructions that you faxed:

1. What is a "recognized oil and gas unit reserve"? "Recognized by whom"? Are you talking about leases that have been unitized that, after unitization, hold at least 1 trillion cubic feet of gas?
2. Do you know for certain that the AOGCC makes the determination set out in page 7, lines 4 - 6? I think they don't. I had this exchange earlier this session with another legislator and he chose to abandon the idea, as I recall. Do you have other information casting light on the ability of the AOGCC to make this kind of determination?
3. If the references to "commissioner(s)" in bill sections 3 and 4 are omitted, it is substantially less certain that the conditions that trigger the taking effect of bill section 2 have occurred. What is the objection to leaving references to them in?
4. I assume that, in the draft, every place that "North Slope" appears--not just the definition--the reference comes out. Any thoughts on what is to be substituted, or is that left to my discretion?

Alaska State Legislature

House Special Committee on Oil & Gas

State Capitol
Room 13
Juneau, AK. 99801-1182



Phone (907) 465-3004
Fax (907) 465-2070

MEMORANDUM

TO: Representative Bill Hudson
FROM: Representative Jim Whitaker
DATE: March 29, 2000
RE: HB399 AK. Natural Gas Pipeline Incentive Act

Bill,

I am requesting that you schedule HB 399, *Alaska Natural Gas Pipeline Incentive Act*, for hearing before the House Resources Committee as soon as possible, pending referral in House Oil and Gas.

It is scheduled for hearing in Oil and Gas, Tuesday, April 4, 2000. In the event this bill is passed out of committee on that day, I would appreciate it if the Resources Committee could have it scheduled for hearing on Wednesday the 5th, or Friday the 7th of April, pending referral.

Thank you,
Jim

A handwritten signature, likely of Jim Whitaker, consisting of a stylized 'J' and 'W'.

Chairman: Representative Jim Whitaker

Committee Members:

Representatives Fred Dyson • Gail Phillips • Brian Porter • Joe Green • John Harris
• Allen Kemplen • Tom Brice • Hal Smalley



REPRESENTATIVE ERIC CROFT

Memorandum

TO: House Chief Clerk
FROM: Rep. Eric Croft 
Rep. Jim Whitaker, Chair,
House Oil & Gas Committee

DATE: 3/29/00
RE: Noticing of HB 399

This is to notify you of the change in short title for noticing of HB 399 for next week in House Oil & Gas Committee. Since the bill will not function in the same way and another draft will be adopted immediately, the House Oil & Gas Committee will be noticing it as "The Alaska Natural Gas Pipeline Incentive Act of 2000" with my permission. Legislative Legal sees no problem in this since the new short title will accurately reflect the bill.

Alaska State Legislature

House Special Committee on Oil & Gas

State Capitol
Room 13
Juneau, AK. 99801-1182



Phone (907) 465-3004
Fax (907) 465-2070

MEMORANDUM

TO: Jack Chenoweth
FROM: Jim Whitaker by Lori Backes
DATE: March 29, 2000
RE: CS for HB399 *incorporated into 1-LS1474-H*

Jack,

Please make the following changes to work draft "G" CS HB399 and incorporate them into an Oil and Gas Committee Substitute:

1. Title: page 1, line 1 - delete "ad valorem" so the title reads "An Act levying and collecting a tax on North Slope natural gas...."
2. Page 1, line 4 - insert the word ", renewal" between "issuance" and "or extension" (*if appropriate. Please comment if you believe it is not an appropriate or needed inclusion*)
3. Page 3, line 13, delete "buyer" and insert "bona fide purchaser"
4. Page 3, line 20, delete "buyer" and insert "bona fide purchaser"
5. Page 4, line 1 - Delete all language from (1) up to and including all of line 4, and insert the language, "(1) a "qualified bona fide purchaser" is a public or private entity that enters into an arms-length gas purchase agreement or agreements with a producer or producers; provided such agreement or agreements do not constitute a related party transaction under generally accepted accounting principles; and provided further that the public or private entity has obtained the requisite rights-of-way, licenses and permits to construct and operate a natural gas transmission system."
6. Page 4, line 5 - Delete "buyers" and insert "bona fide purchasers"
7. Page 4, line 7 - Delete "buyer" and insert "bona fide purchaser"

Chairman: Representative Jim Whitaker

Committee Members:

Representatives Fred Dyson • Gail Phillips • Brian Porter • Joe Green • John Harris
• Allen Kemplen • Tom Brice • Hal Smalley

8. Page 4, line 10 - Delete "Ad valorem", so the line reads, "Sec. 43.58.210. Tax on certain proven gas reserves by volume" (Rep. Croft wants this to read so that the tax is on the volume not the value. If possible, use the latin term for "by volume" in this line as opposed to the english term "by volume".

9. Page 4, line 13 - Delete "the greater of"

10. Page 4, line 14 - Delete "0.20" and insert "\$0.02", and delete "or"

11. Page 4, line 15 - Delete all language from "(2)...- line 17, "year."

Also, please add Rep. Whitaker as a co-prime sponsor of the bill, so the sponsor(s): reads "Representative(s) Croft, Whitaker"

I need this immediately, Reps. Croft and Whitaker are working on it this afternoon. Thank You so much for your great work, and if you have any questions, I will be at ext. 2283. If I am unreachable, please contact Sam in Rep. Croft's office at ext. 4998.

Thanks!
Lori

Chairman: Representative Jim Whitaker
Committee Members:

Representatives Fred Dyson • Gail Phillips • Brian Porter • Joe Green • John Harris
• Allen Kemplen • Tom Brice • Hal Smalley

Re: HB399

Subject: Re: HB399

Date: Wed, 29 Mar 2000 13:24:09 -0900

From: Jack Chenoweth <Jack_Chenoweth@legis.state.ak.us>

Organization: Alaska State Legislature

To: Lori Backes <Lori_Backes@legis.state.ak.us>

Memo, request #2: Insertion of "renewal" isn't appropriate because the provision being amended, AS 38.05.180(m), in bill sec. 3, only speaks in terms of "automatic extension" and "issu[ance]." AS 38.05.180 doesn't use "renew" or "renewal."

Memo, request #8: I'll simply delete the "ad valorem." I don't know that there is a Latin term for "by volume" that attaches to a tax.

Memo, request # 10: You're sure it's to be 2 cents (\$ 0.02) and not 20 cents (\$ 0.20)??

Last request of memo: *I can't* add bill sponsors after introduction and can't add co-prime sponsors unless the bill is a prefile. As a matter of practice in each body, additions of co-sponsors can only be done on motion during a floor session, usually, though not always, in conjunction with consideration of the bill or maybe under special orders.

Lori Backes wrote:

Here are the changes requested for HB 399. I know there may be a process by which we need to change to a "co-prime sponsorship", and if you have concerns of doing it in this draft, please let me know.
Lori

Name: CS399 chen memo.doc
CS399 chen memo.doc Type: Winword File (application/msword)
Encoding: base64
Download Status: Not downloaded with message

Alaska State Legislature

Representative Jim Whitaker

Session

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

**Interim**

119 N. Cushman St. Suite 101
Fairbanks, AK 99701
Phone: (907) 452-1088
Fax: (907) 452-1146

Memorandum

To: Jack Chenoweth
From: Lori Backes for Rep. Whitaker
Date: March 31, 2000
Re: Request for sectional analysis

Jack,

Please provide a sectional analysis of work draft 1-LS1474I of HB 399. It will be heard by the House Special Committee on Oil and Gas, Tuesday, April 4th at 5 p.m., I would appreciate it very much if I could have that by Monday noon to include in members' packets.

Thank you,
Lori

1-LS1474H
Chenoweth
3/29/00

CS FOR HOUSE BILL NO. 399()

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVE CROFT

A BILL

FOR AN ACT ENTITLED

1 "An Act levying and collecting a tax on North Slope natural gas in place if
2 certain requirements relating to its sale and delivery are not met, and imposing
3 a limit on the Department of Natural Resources that relates to the issuance or
4 extension of oil and gas leases containing natural gas that is stranded gas
5 capable of production in paying quantities; and providing for an effective date."

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

7 * **Section 1.** The uncoded law of the State of Alaska is amended by adding a new
8 section to read:

9 **SHORT TITLE.** This Act may be known as the Alaska Natural Gas Pipeline Incentive
10 Act of 2000.

11 * **Sec. 2.** The uncoded law of the State of Alaska is amended by adding a new section
12 to read:

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

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

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

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

9 (4) natural gas located on the North Slope is a valuable resource to the state
10 that has not been produced for sale in the market place, nor made available for in-state
11 utilization by the people of the state;

12 (5) the in-state utilization of North Slope natural gas will provide a more
13 economic and environmentally acceptable source of energy for the people of Alaska;

14 (6) the amount of natural gas located on the North Slope is substantial and, if
15 sold, will generate significant revenue to the state and opportunities and benefits to its people
16 for many years;

17 (7) in order to facilitate the commercialization of North Slope natural gas, it
18 is necessary to provide an incentive to ensure that the cost to North Slope producers not to
19 commercialize, delay commercialization, or inhibit commercialization of North Slope natural
20 gas is prohibitive; and

21 (8) a policy of noncommercialization, delaying commercialization, or inhibiting
22 commercialization, when commercialization is economically feasible, is contrary to the spirit
23 and intent of art. VIII, secs. 1 and 2, Constitution of the State of Alaska.

24 (b) The intent of this Act is to

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

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

29 (3) establish a means by which the state can facilitate the availability for in-
30 state consumption and utilization of North Slope natural gas by the people of Alaska;

31 (4) establish a means by which the state can facilitate the commercialization

1 of North Slope natural gas.

2 * Sec. 3. AS 38.05.180(m) is amended to read:

3 (m) An oil and gas lease must cover a reasonably compact area not exceeding
4 5,760 acres, and may be for a maximum period of 10 years, except that the
5 commissioner may issue a lease for a period not less than five years upon a finding
6 that it is in the best interests of the state. An oil and gas lease shall be automatically
7 extended if and for so long thereafter as oil or gas is produced in paying quantities
8 from the lease or if the lease is committed to a unit approved by the commissioner,
9 but the commissioner shall deny an automatic extension of the lease and may not
10 extend the lease unless the lessee agrees to an amendment of the lease to include
11 a provision by which the lessee is required to contract to sell the gas that is
12 stranded gas, as that term is defined in AS 43.82.900, to a qualified bona fide
13 purchaser. A lease issued under this section covering land on which there is a well
14 capable of producing oil or gas in paying quantities does not expire because the lessee
15 fails to produce oil or gas unless the lessee is allowed reasonable time to place the
16 well on a producing status. A lease issued under this section on which there is a
17 well capable of producing oil or gas in paying quantities must include a provision
18 by which the lessee is required to contract to sell the gas that is stranded gas, as
19 that term is defined in AS 43.82.900, to a qualified bona fide purchaser. Upon
20 extension, the commissioner may increase lease rentals so long as the increased rental
21 rate does not exceed 150 percent of the rate for the preceding year. If drilling has
22 commenced on the expiration date of the primary term of the lease and is continued
23 with reasonable diligence, including such operations as redrilling, sidetracking, or other
24 means necessary to reach the originally proposed bottom hole location, the lease
25 continues in effect until 90 days after drilling has ceased and for so long thereafter as
26 oil or gas is produced in paying quantities. An oil and gas lease issued under this
27 section that [WHICH] is subject to termination by reason of cessation of production
28 does not terminate if, within 60 days after production ceases, reworking or drilling
29 operations are commenced on the land under lease and are thereafter conducted with
30 reasonable diligence during the period of nonproduction. For purposes of this
31 subsection,

1 (1) a "qualified bona fide purchaser" is a public or private entity
2 that enters into an arms-length gas purchase agreement or agreements with a
3 producer or producers if the agreement or agreements do not constitute a related
4 party transaction under generally accepted accounting principles and if the public
5 or private entity has obtained the requisite rights-of-way, licenses, and permits to
6 construct and operate a natural gas transmission system; and

7 (2) if two or more qualified bona fide purchasers offer to purchase
8 the stranded gas, the commissioner shall issue or extend the lease only if the lessee
9 enters into an agreement with the qualified bona fide purchaser that provides the
10 greatest long-term return to the state.

11 * Sec. 4. AS 43.58 is amended by adding new sections to read:

12 Sec. 43.58.210. Tax on certain proven gas reserves. (a) An annual tax is
13 levied each calendar year on the full and true value of taxable property under this
14 chapter.

15 (b) The annual rate of levy is 2 cents per 1,000 cubic feet.

16 Sec. 43.58.220. Property subject to tax. The provisions of this chapter apply
17 to natural gas in place from all state leases on the North Slope having proven gas
18 reserves.

19 Sec. 43.58.230. Assessment; full and true value. (a) The department shall
20 assess taxable property under this chapter to the owner of it at its full and true value
21 as of January 1 of each year.

22 (b) The full and true value of taxable property under this chapter is the
23 estimated price that the taxable property would bring in an open market and under the
24 then prevailing market conditions in a sale between a willing seller and a willing buyer
25 both conversant with the property and with prevailing values. In determining the full
26 and true value of taxable property, the department shall consider all factors that may
27 be known by the department to affect the value of taxable property, including the
28 discounted present value of the expected future net income from the taxable property.

29 Sec. 43.58.240. Assessment roll. The department shall prepare annually the
30 assessment roll for taxation under this chapter. The roll must contain

31 (1) a description of all taxable property;

- 1 (2) the assessed value of all taxable property; and
2 (3) the names and addresses of persons owning or otherwise holding
3 an interest in taxable property.

4 **Sec. 43.58.250. Assessment notice.** On or before April 15 of each year, the
5 department shall send to every owner of taxable property subject to levy and collection
6 of taxes under this chapter named in the assessment roll a notice of assessment
7 showing the assessed value of the property. The notice of assessment is effective on
8 the date of its mailing.

9 **Sec. 43.58.260. Appeal.** (a) A person aggrieved by the action of the
10 department in making an assessment may appeal that action and obtain a hearing upon
11 its validity before the department by filing written objections to the assessment not
12 later than 20 days after the effective date of the assessment notice.

13 (b) The procedures for conduct of the hearing and preliminary activities to it
14 shall be in accordance with AS 44.62.350, 44.62.430, 44.62.450, 44.62.460, 44.62.480,
15 44.62.500 - 44.62.550, 44.62.590, and 44.62.610 - 44.62.640. For the purposes of this
16 section, the term "respondent" used in those sections shall be considered to include the
17 person aggrieved by action of the department. The department shall provide by
18 regulation for notices of hearing under this section to interested persons. At the
19 hearing, the appellant bears the burden of proof. In the absence of this proof, the
20 assessment is to be upheld by the department. If the department, after hearing,
21 determines that a correction of the assessment is warranted, the department shall
22 correct the assessment and the assessment roll.

23 (c) Within 30 days after the decision by the department following the hearing,
24 a person aggrieved by that decision may appeal to the superior court.

25 **Sec. 43.58.270. Certification.** On or before June 15 of each year, the
26 department shall certify the final assessment roll and mail to the owner, operator, or
27 other person filing a return and paying tax on the taxable property a statement of the
28 amount of tax due.

29 **Sec. 43.58.280. Supplemental assessment rolls.** The department shall include
30 property omitted from the assessment roll on a supplemental roll, using the procedures
31 set out in AS 43.58.230 - 43.58.250 and 43.58.290 - 43.58.300 for the original roll.

1 **Sec. 43.58.290. Investigation.** (a) The department may make an investigation
2 of property on which a return has been filed or on property for which a return has not
3 been filed. In either case, the department shall make its own valuation of the taxable
4 property, which is prima facie evidence of the property's full and true value.

5 (b) An employee or agent of the department may enter any premises necessary
6 for the investigation during reasonable hours and may examine property and other
7 appropriate records. The owner of taxable property, upon request, shall furnish to the
8 employee or agent of the department reasonable assistance required for the
9 investigation. If an employee or agent of the department seeking to enter any premises
10 necessary for an investigation under this section or to obtain reasonable assistance
11 required for an investigation under this section is refused entry or assistance, the
12 superior court may, after reasonable notice to and hearing of the owner, order the
13 owner to allow the entry or to furnish the assistance.

14 (c) For the purpose of the investigation of property, the owner, operator, or
15 other person filing a return and paying the tax on the taxable property or a
16 representative may be required to appear for examination under oath by the
17 department.

18 **Sec. 43.58.300. Returns and payment of tax.** (a) A return of taxable
19 property shall be submitted on or before February 1 on the form prescribed by the
20 department based on property values existing on January 1 of each calendar year,
21 except as otherwise provided in this chapter. The return shall be submitted by

22 (1) a person who is the owner of the property, or who controls that
23 property as agent, or on account of any other person;

24 (2) a guardian or other person who has charge of taxable property
25 belonging to a minor or other person;

26 (3) the trustee of a trust estate holding taxable property in trust for the
27 benefit of another person;

28 (4) the executor or administrator of a deceased person's estate that
29 includes taxable property;

30 (5) the receiver of a corporation who has its assets in hand.

31 (b) The person required to submit the return specified under (a)(1) of this

1 section is primarily liable for payment of the tax levied by this chapter. The persons
2 or estates specified in (a)(2) - (5) of this section in whose behalf the tax levied by this
3 chapter is to be paid are secondarily liable for payment of the tax. With the written
4 approval of the department, an operator or nonoperator of the lease or property may
5 submit returns or make payment of the tax levied under this chapter on behalf of the
6 operator or nonoperator and other persons as the department may approve.

7 (c) The tax levied under this chapter is payable to the department on or before
8 June 30 of each year or in installments at the times and under the conditions of the
9 department may by regulation require.

10 (d) With the prior written approval of the department, a person submitting
11 returns or making payments as required under this chapter for more than one taxable
12 property may regard the leases or properties as a single taxable property for purposes
13 of submitting those reports or making those payments.

14 (e) A person making payment of the tax levied under this chapter on behalf
15 of one or more other persons owning or otherwise holding an interest in a taxable
16 property may withhold a proportionate share of the payment from any proceeds or
17 other benefits from the taxable property owed to any person on whose behalf the
18 payment is made. Unless otherwise specifically provided by written contract or
19 agreement, the person so withholding a proportionate share of the tax levied under this
20 chapter incurs no liability to those from whom it is withheld by virtue of having made
21 the withholding.

22 (f) The department may, by written notice, require a person filing a return to
23 submit additional information to the department no later than 30 days after the notice.

24 **Sec. 43.58.310. Remedy.** The remedy of distraint on property set out in
25 AS 43.20.270 applies to the tax, penalty, and interest levied by this chapter.

26 **Sec. 43.58.320. Regulations.** The department may adopt regulations in
27 accordance with AS 44.62 (Administrative Procedure Act) as appropriate to administer
28 and enforce this chapter.

29 **Sec. 43.58.395. Definitions.** In this chapter,

30 (1) "gas" and "natural gas" have the meanings given to "gas" in
31 AS 43.55.900;

(2) "lease or property" means any right, title, or interest in or the right to produce or recover gas, including

(A) a mineral interest;

(B) a leasehold interest;

(C) a working interest, a royalty interest, an overriding royalty interest, production payment, net profit interest, or any other interest in a lease, concession, joint venture, or other agreement for gas exploration, development, or production;

(D) a working interest, a royalty interest, an overriding royalty interest, production payment, net profit interest, or any other interest in an agreement for unitization or pooling under provisions of 26 U.S.C. 614(b)(3) (Internal Revenue Code);

(3) "North Slope" means the area of Alaska lying north of 68 degrees North latitude;

(4) "operator" means the person conducting the exploration, development, or production operation for a lease or property;

(5) "proven gas reserves" means the volume of gas in a known deposit that geological and engineering information indicates is recoverable in the future under prevailing economic conditions and technology.

* Sec. 5. The uncoded law of the State of Alaska is amended by adding a new section to read:

CONDITIONAL EFFECT OF SECTION 4 OF THIS ACT. Section 4 of this Act takes effect under sec. 9 of this Act unless, no later than December 31, 2002, not less than 650,000,000,000 cubic feet of North Slope natural gas, as that term is defined in AS 43.58.395, added by sec. 4 of this Act, that is undeveloped on the effective date of this section, is annually committed by contract for sale and timely delivery as commercially marketable gas, not for enhanced recovery operations, for a contract term of at least 20 years, with delivery scheduled to begin no later than December 31, 2008.

* Sec. 6. The uncoded law of the State of Alaska is amended by adding a new section to read:

CONDITIONAL EFFECT OF SECTION 4 OF THIS ACT. Section 4 of this Act takes

1 effect under sec. 10 of this Act

2 (1) if, under sec. 5 of this Act, the provisions of AS 43.58.210 - 43.58.395 did
3 not take effect; and

4 (2) unless, no later than December 31, 2008, the cubic feet of North Slope
5 natural gas, as that term is defined in AS 43.58.395, added by sec. 4 of this Act, that is
6 undeveloped on the effective date of this section, that has been committed by contract for sale
7 and timely delivery as commercially marketable gas as required by sec. 5 of this Act is
8 deliverable as provided by the appropriate terms of the contract.

9 * Sec. 7. The uncoded law of the State of Alaska is amended by adding a new section
10 to read:

11 ENFORCEMENT OF PROVISIONS OF SECS. 5 AND 6 OF THIS ACT. On or after
12 January 1, 2003, any qualified voter may apply to the superior court to compel the superior
13 court, by mandamus or otherwise, to require the commissioner of revenue to perform the
14 duties of the commissioner under AS 43.58.210 - 43.58.395, added by sec. 4 of this Act, if
15 sec. 4 of this Act has taken effect.

16 * Sec. 8. The uncoded law of the State of Alaska is amended by adding a new section
17 to read:

18 CONDITIONAL DELETION OF REFERENCES TO MATERIAL ENACTED BY
19 SECTION 4 OF THIS ACT. If, before January 2, 2009, the provisions of AS 43.58.210 -
20 43.58.395 have not taken effect, the revisor of statutes shall delete from the Alaska Statutes
21 references to the following sections added by sec. 4 of this Act: AS 43.58.210, 43.58.220,
22 43.58.230, 43.58.240, 43.58.250, 43.58.260, 43.58.270, 43.58.280, 43.58.290, 43.58.300,
23 43.58.310, 43.58.320, and 43.58.395.

24 * Sec. 9. If, under sec. 5 of this Act, sec. 4 of this Act takes effect, it takes effect
25 January 1, 2003.

26 * Sec. 10. If, under sec. 6 of this Act, sec. 4 of this Act takes effect, it takes effect
27 January 1, 2009.

1-LS1474\G
Chenoweth
3/28/00

CS FOR HOUSE BILL NO. 399()

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIRST LEGISLATURE - SECOND SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE CROFT

A BILL

FOR AN ACT ENTITLED

1 "An Act levying and collecting an ad valorem tax on North Slope natural gas
2 in place if certain requirements relating to its sale and delivery are not met, and
3 imposing a limit on the Department of Natural Resources that relates to the
4 issuance or extension of oil and gas leases containing natural gas that is
5 stranded gas capable of production in paying quantities; and providing for an
6 effective date."

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

8 * Section 1. The uncoded law of the State of Alaska is amended by adding a new
9 section to read:

10 SHORT TITLE. This Act may be known as the Alaska Natural Gas Pipeline Incentive
11 Act of 2000.

12 * Sec. 2. The uncoded law of the State of Alaska is amended by adding a new section
13 to read:

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

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

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

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

10 (4) natural gas located on the North Slope is a valuable resource to the state
11 that has not been produced for sale in the market place, nor made available for in-state
12 utilization by the people of the state;

13 (5) the in-state utilization of North Slope natural gas will provide a more
14 economic and environmentally acceptable source of energy for the people of Alaska;

15 (6) the amount of natural gas located on the North Slope is substantial and, if
16 sold, will generate significant revenue to the state and opportunities and benefits to its people
17 for many years;

18 (7) in order to facilitate the commercialization of North Slope natural gas, it
19 is necessary to provide an incentive to ensure that the cost to North Slope producers not to
20 commercialize, delay commercialization, or inhibit commercialization of North Slope natural
21 gas is prohibitive; and

22 (8) a policy of noncommercialization, delaying commercialization, or inhibiting
23 commercialization, when commercialization is economically feasible, is contrary to the spirit
24 and intent of art. VIII, secs. 1 and 2, Constitution of the State of Alaska.

25 (b) The intent of this Act is to

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

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

30 (3) establish a means by which the state can facilitate the availability for in-
31 state consumption and utilization of North Slope natural gas by the people of Alaska;

1 (4) establish a means by which the state can facilitate the commercialization
2 of North Slope natural gas.

3 * Sec. 3. AS 38.05.180(m) is amended to read:

4 (m) An oil and gas lease must cover a reasonably compact area not exceeding
5 5,760 acres, and may be for a maximum period of 10 years, except that the
6 commissioner may issue a lease for a period not less than five years upon a finding
7 that it is in the best interests of the state. An oil and gas lease shall be automatically
8 extended if and for so long thereafter as oil or gas is produced in paying quantities
9 from the lease or if the lease is committed to a unit approved by the commissioner,
10 but the commissioner shall deny an automatic extension of the lease and may not
11 extend the lease unless the lessee agrees to an amendment of the lease to include
12 a provision by which the lessee is required to contract to sell the gas that is
13 stranded gas, as that term is defined in AS 43.82.900, to a qualified buyer. A
14 lease issued under this section covering land on which there is a well capable of
15 producing oil or gas in paying quantities does not expire because the lessee fails to
16 produce oil or gas unless the lessee is allowed reasonable time to place the well on a
17 producing status. A lease issued under this section on which there is a well capable
18 of producing oil or gas in paying quantities must include a provision by which the
19 lessee is required to contract to sell the gas that is stranded gas, as that term is
20 defined in AS 43.82.900, to a qualified buyer. Upon extension, the commissioner
21 may increase lease rentals so long as the increased rental rate does not exceed 150
22 percent of the rate for the preceding year. If drilling has commenced on the expiration
23 date of the primary term of the lease and is continued with reasonable diligence,
24 including such operations as redrilling, sidetracking, or other means necessary to reach
25 the originally proposed bottom hole location, the lease continues in effect until 90 days
26 after drilling has ceased and for so long thereafter as oil or gas is produced in paying
27 quantities. An oil and gas lease issued under this section that [WHICH] is subject to
28 termination by reason of cessation of production does not terminate if, within 60 days
29 after production ceases, reworking or drilling operations are commenced on the land
30 under lease and are thereafter conducted with reasonable diligence during the period
31 of nonproduction. For purposes of this subsection,

1 (1) a "qualified buyer" means a person that owns or operates a
2 natural gas pipeline having sufficient capacity for the transportation and the in-
3 state use of the stranded gas or sale of the stranded gas in interstate commerce
4 or for export; and

5 (2) if two or more qualified buyers offer to purchase the stranded
6 gas, the commissioner shall issue or extend the lease only if the lessee enters into
7 an agreement with the qualified buyer that provides the greatest long-term return
8 to the state.

9 * Sec. 4. AS 43.58 is amended by adding new sections to read:

10 Sec. 43.58.210. Ad valorem tax on certain proven gas reserves. (a) An
11 annual tax is levied each calendar year on the full and true value of taxable property
12 under this chapter.

13 (b) The annual rate of levy is the greater of

14 (1) 0.20 per 1,000 cubic feet; or

15 (2) a millage rate that, when applied against the full and true value of
16 the taxable property described in AS 43.58.230 - 43.58.250, yields \$1,000,000,000
17 during the tax year.

18 Sec. 43.58.220. Property subject to tax. The provisions of this chapter apply
19 to natural gas in place from all state leases on the North Slope having proven gas
20 reserves.

21 Sec. 43.58.230. Assessment; full and true value. (a) The department shall
22 assess taxable property under this chapter to the owner of it at its full and true value
23 as of January 1 of each year.

24 (b) The full and true value of taxable property under this chapter is the
25 estimated price that the taxable property would bring in an open market and under the
26 then prevailing market conditions in a sale between a willing seller and a willing buyer
27 both conversant with the property and with prevailing values. In determining the full
28 and true value of taxable property, the department shall consider all factors that may
29 be known by the department to affect the value of taxable property, including the
30 discounted present value of the expected future net income from the taxable property.

31 Sec. 43.58.240. Assessment roll. The department shall prepare annually the

1 assessment roll for taxation under this chapter. The roll must contain

2 (1) a description of all taxable property;

3 (2) the assessed value of all taxable property; and

4 (3) the names and addresses of persons owning or otherwise holding
5 an interest in taxable property.

6 **Sec. 43.58.250. Assessment notice.** On or before April 15 of each year, the
7 department shall send to every owner of taxable property subject to levy and collection
8 of taxes under this chapter named in the assessment roll a notice of assessment
9 showing the assessed value of the property. The notice of assessment is effective on
10 the date of its mailing.

11 **Sec. 43.58.260. Appeal.** (a) A person aggrieved by the action of the
12 department in making an assessment may appeal that action and obtain a hearing upon
13 its validity before the department by filing written objections to the assessment not
14 later than 20 days after the effective date of the assessment notice.

15 (b) The procedures for conduct of the hearing and preliminary activities to it
16 shall be in accordance with AS 44.62.350, 44.62.430, 44.62.450, 44.62.460, 44.62.480,
17 44.62.500 - 44.62.550, 44.62.590, and 44.62.610 - 44.62.640. For the purposes of this
18 section, the term "respondent" used in those sections shall be considered to include the
19 person aggrieved by action of the department. The department shall provide by
20 regulation for notices of hearing under this section to interested persons. At the
21 hearing, the appellant bears the burden of proof. In the absence of this proof, the
22 assessment is to be upheld by the department. If the department, after hearing,
23 determines that a correction of the assessment is warranted, the department shall
24 correct the assessment and the assessment roll.

25 (c) Within 30 days after the decision by the department following the hearing,
26 a person aggrieved by that decision may appeal to the superior court.

27 **Sec. 43.58.270. Certification.** On or before June 15 of each year, the
28 department shall certify the final assessment roll and mail to the owner, operator, or
29 other person filing a return and paying tax on the taxable property a statement of the
30 amount of tax due.

31 **Sec. 43.58.280. Supplemental assessment rolls.** The department shall include

property omitted from the assessment roll on a supplemental roll, using the procedures set out in AS 43.58.230 - 43.58.250 and 43.58.290 - 43.58.300 for the original roll.

Sec. 43.58.290. Investigation. (a) The department may make an investigation of property on which a return has been filed or on property for which a return has not been filed. In either case, the department shall make its own valuation of the taxable property, which is prima facie evidence of the property's full and true value.

(b) An employee or agent of the department may enter any premises necessary for the investigation during reasonable hours and may examine property and other appropriate records. The owner of taxable property, upon request, shall furnish to the employee or agent of the department reasonable assistance required for the investigation. If an employee or agent of the department seeking to enter any premises necessary for an investigation under this section or to obtain reasonable assistance required for an investigation under this section is refused entry or assistance, the superior court may, after reasonable notice to and hearing of the owner, order the owner to allow the entry or to furnish the assistance.

(c) For the purpose of the investigation of property, the owner, operator, or other person filing a return and paying the tax on the taxable property or a representative may be required to appear for examination under oath by the department.

Sec. 43.58.300. Returns and payment of tax. (a) A return of taxable property shall be submitted on or before February 1 on the form prescribed by the department based on property values existing on January 1 of each calendar year, except as otherwise provided in this chapter. The return shall be submitted by

(1) a person who is the owner of the property, or who controls that property as agent, or on account of any other person;

(2) a guardian or other person who has charge of taxable property belonging to a minor or other person;

(3) the trustee of a trust estate holding taxable property in trust for the benefit of another person;

(4) the executor or administrator of a deceased person's estate that includes taxable property;

1 (5) the receiver of a corporation who has its assets in hand.

2 (b) The person required to submit the return specified under (a)(1) of this
3 section is primarily liable for payment of the tax levied by this chapter. The persons
4 or estates specified in (a)(2) - (5) of this section in whose behalf the tax levied by this
5 chapter is to be paid are secondarily liable for payment of the tax. With the written
6 approval of the department, an operator or nonoperator of the lease or property may
7 submit returns or make payment of the tax levied under this chapter on behalf of the
8 operator or nonoperator and other persons as the department may approve.

9 (c) The tax levied under this chapter is payable to the department on or before
10 June 30 of each year or in installments at the times and under the conditions of the
11 department may by regulation require.

12 (d) With the prior written approval of the department, a person submitting
13 returns or making payments as required under this chapter for more than one taxable
14 property may regard the leases or properties as a single taxable property for purposes
15 of submitting those reports or making those payments.

16 (e) A person making payment of the tax levied under this chapter on behalf
17 of one or more other persons owning or otherwise holding an interest in a taxable
18 property may withhold a proportionate share of the payment from any proceeds or
19 other benefits from the taxable property owed to any person on whose behalf the
20 payment is made. Unless otherwise specifically provided by written contract or
21 agreement, the person so withholding a proportionate share of the tax levied under this
22 chapter incurs no liability to those from whom it is withheld by virtue of having made
23 the withholding.

24 (f) The department may, by written notice, require a person filing a return to
25 submit additional information to the department no later than 30 days after the notice.

26 **Sec. 43.58.310. Remedy.** The remedy of distraint on property set out in
27 AS 43.20.270 applies to the tax, penalty, and interest levied by this chapter.

28 **Sec. 43.58.320. Regulations.** The department may adopt regulations in
29 accordance with AS 44.62 (Administrative Procedure Act) as appropriate to administer
30 and enforce this chapter.

31 **Sec. 43.58.395. Definitions.** In this chapter,

(1) "gas" and "natural gas" have the meanings given to "gas" in AS 43.55.900;

(2) "lease or property" means any right, title, or interest in or the right to produce or recover gas, including

(A) a mineral interest;

(B) a leasehold interest;

(C) a working interest, a royalty interest, an overriding royalty interest, production payment, net profit interest, or any other interest in a lease, concession, joint venture, or other agreement for gas exploration, development, or production;

(D) a working interest, a royalty interest, an overriding royalty interest, production payment, net profit interest, or any other interest in an agreement for unitization or pooling under provisions of 26 U.S.C. 614(b)(3) (Internal Revenue Code);

(3) "North Slope" means the area of Alaska lying north of 68 degrees North latitude;

(4) "operator" means the person conducting the exploration, development, or production operation for a lease or property;

(5) "proven gas reserves" means the volume of gas in a known deposit that geological and engineering information indicates is recoverable in the future under prevailing economic conditions and technology.

* Sec. 5. The uncoded law of the State of Alaska is amended by adding a new section to read:

CONDITIONAL EFFECT OF SECTION 4 OF THIS ACT. Section 4 of this Act takes effect under sec. 9 of this Act unless, no later than December 31, 2002, not less than 650,000,000,000 cubic feet of North Slope natural gas, as that term is defined in AS 43.58.395, added by sec. 4 of this Act, that is undeveloped on the effective date of this section, is annually committed by contract for sale and timely delivery as commercially marketable gas, not for enhanced recovery operations, for a contract term of at least 20 years, with delivery scheduled to begin no later than December 31, 2008.

* Sec. 6. The uncoded law of the State of Alaska is amended by adding a new section

to a bona fide purchaser
qualified

1 to read:

2 **CONDITIONAL EFFECT OF SECTION 4 OF THIS ACT.** Section 4 of this Act takes
3 effect under sec. 10 of this Act.

4 (1) if, under sec. 5 of this Act, the provisions of AS 43.58.210 - 43.58.395 did
5 not take effect; and

6 (2) unless, no later than December 31, 2008, the cubic feet of North Slope
7 natural gas, as that term is defined in AS 43.58.395, added by sec. 4 of this Act, that is
8 undeveloped on the effective date of this section, that has been committed by contract for sale
9 and timely delivery as commercially marketable gas as required by sec. 5 of this Act is
10 deliverable as provided by the appropriate terms of the contract.

11 * Sec. 7. The uncoded law of the State of Alaska is amended by adding a new section
12 to read:

13 **ENFORCEMENT OF PROVISIONS OF SECS. 5 AND 6 OF THIS ACT.** On or after
14 January 1, 2003, any qualified voter may apply to the superior court to compel the superior
15 court, by mandamus or otherwise, to require the commissioner of revenue to perform the
16 duties of the commissioner under AS 43.58.210 - 43.58.395, added by sec. 4 of this Act, if
17 sec. 4 of this Act has taken effect.

18 * Sec. 8. The uncoded law of the State of Alaska is amended by adding a new section
19 to read:

20 **CONDITIONAL DELETION OF REFERENCES TO MATERIAL ENACTED BY**
21 **SECTION 4 OF THIS ACT.** If, before January 2, 2009, the provisions of AS 43.58.210 -
22 43.58.395 have not taken effect, the revisor of statutes shall delete from the Alaska Statutes
23 references to the following sections added by sec. 4 of this Act: AS 43.58.210, 43.58.220,
24 43.58.230, 43.58.240, 43.58.250, 43.58.260, 43.58.270, 43.58.280, 43.58.290, 43.58.300,
25 43.58.310, 43.58.320, and 43.58.395.

26 * Sec. 9. If, under sec. 5 of this Act, sec. 4 of this Act takes effect, it takes effect
27 January 1, 2003.

28 * Sec. 10. If, under sec. 6 of this Act, sec. 4 of this Act takes effect, it takes effect
29 January 1, 2009.

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. HB 399

Revision Date/Time (Note if correction) _____ Dept. Affected _____ Revenue _____
Title Alaska Natural Gas Pipeline Incentive Act BRU Operations
Component Tax Division
Sponsor Representative Croft
Requester House Oil and Gas Committee Component No. 115

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

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

CHANGE IN REVENUES ()			*	*	*	*
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2000) cost: _____

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The bill would create \$1 billion a year of new tax revenue to the state starting in FY 2003, but only if North Slope gas were not developed by the deadline in the legislation. No responsible estimate of state tax revenues from North Slope gas development has ever approached \$1 billion a year. Therefore, if this legislation is passed, the state's only rational course to maximize oil and gas revenue would be to block any further development of North Slope gas.

Prepared by: Dan Dickinson, Director Phone 269-1033
Division Tax Division Date/Time April 3, 2000 - 1 p.m.
Approved by: Commissioner Wilson Condon Date 04/03/2000
Agency Department of Revenue

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FISCAL NOTE

**STATE OF ALASKA
2000 LEGISLATIVE SESSION**

BILL NO. HB 399

Revision Date/Time (Note if correction) _____ Dept. Affected Law
 Title *An Act levying and collecting an ad valorem tax on BRU Civil Division
North Slope natural gas in place; and providing for an effective date Component Oil, Gas, and Mining
 Sponsor Representative Croft
 Requester House Special Committee on Oil and Gas Component No. 2091

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	304.0	304.0	304.0	304.0	304.0	304.0
Travel	1.3	1.3	1.3	1.3	1.3	1.3
Contractual	49.0	49.0	49.0	49.0	49.0	49.0
Supplies	4.9	4.9	4.9	4.9	4.9	4.9
Equipment	26.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	385.2	359.2	359.2	359.2	359.2	359.2

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

CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1007 Interagency Receipts	385.2	359.2	359.2	359.2	359.2	359.2
TOTAL	385.2	359.2	359.2	359.2	359.2	359.2

Estimate of any current year (FY2000) cost: _____

POSITIONS

Full-time	4	4	4	4	4	4
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 399 levies a property tax on North Slope natural gas in the ground.

The Department of Law anticipates two new attorney positions and one paraprofessional position will be required if this legislation is enacted. It has been our experience that when a new tax is enacted, it is followed by years of litigation to establish the "ground rules" governing the tax's implementation. The new Civil Division positions will be funded with interagency receipts from the Oil and Gas Litigation and Legal Services appropriation, also within the Department of Law. A separate fiscal note for the Oil and Gas Litigation general funds necessary to pay for these positions accompanies this fiscal note.

Prepared by: Joan M. Kasson *Joan M. Kasson* Phone 465-5370
 Division Attorney General's Office Date/Time 4/3/00, 10:28 AM
 Approved by Commissioner *Redford* Bruce M. Botelho, Attorney General Date 4/3/00
 Agency Department of Law

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ANALYSIS CONTINUATION

Based on the department's FY01 standard full-time equivalent attorney cost schedule, which includes clerical support, communications, space, supplies, data processing, and other normal overhead expenses, the cost of one FTE attorney is \$134,712 and a paraprofessional, \$89,837. An additional \$6,500 per position is necessary for one-time equipment purchases, a cost that cannot be included in the rate as overhead. Annual clerical support costs are included in the cost schedule as overhead at the rate of approximately one support position for every three attorney positions; however, a position authorization for one Legal Secretary I is necessary, as well as associated one-time equipment costs.

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. HB 399

Revision Date/Time (Note if correction) _____ Dept. Affected Law
Title "An Act levying and collecting an ad valorem tax on BRU" Civil Division
North Slope natural gas in place; and providing for an effective date Component Oil, Gas, and Mining
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Travel	1.3	1.3	1.3	1.3	1.3	1.3
Contractual	49.0	49.0	49.0	49.0	49.0	49.0
Supplies	4.9	4.9	4.9	4.9	4.9	4.9
Equipment	26.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	385.2	359.2	359.2	359.2	359.2	359.2

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

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
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1007 Interagency Receipts	385.2	359.2	359.2	359.2	359.2	359.2
TOTAL	385.2	359.2	359.2	359.2	359.2	359.2

Estimate of any current year (FY2000) cost: _____

POSITIONS

Full-time	4	4	4	4	4	4
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 399 levies a property tax on North Slope natural gas in the ground.

The Department of Law anticipates two new attorney positions and one paraprofessional position will be required if this legislation is enacted. It has been our experience that when a new tax is enacted, it is followed by years of litigation to establish the "ground rules" governing the tax's implementation. The new Civil Division positions will be funded with interagency receipts from the Oil and Gas Litigation and Legal Services appropriation, also within the Department of Law. A separate fiscal note for the Oil and Gas Litigation general funds necessary to pay for these positions accompanies this fiscal note.

Prepared by: Joan M. Kasson *Joan M. Kasson* Phone 465-5370
Division Attorney General's Office Date/Time 4/3/00, 10:28 AM
Approved by Commissioner *Kadane* Bruce M. Botelho, Attorney General Date 4/3/00
Agency Department of Law

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ANALYSIS CONTINUATION

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Representative Eric Croft

**Sponsor Statement
HB 399**

"The Alaska Natural Gas Pipeline Incentive Act of 2000"

"It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest." Alaska Constitution, Article VIII, Section 1.

The people of the state of Alaska own title to substantial amounts of natural gas on the North Slope. As a clean burning fuel, the demand for natural gas is expected to grow substantially over the next 50 years. For many years, the state has allowed private companies to bid on the right to develop the oil and gas through the leasing process. Each lease signed requires that the leaseholder use reasonable efforts to develop the oil and natural gas under lease and to bring these products to market. Some of the leases on the North Slope are more than 30 years old. Yet the natural gas on the North Slope has not been developed and brought to market.

The multinational oil companies that hold the vast majority of leases for natural gas on the North Slope also hold leases for natural gas in other areas of the world. Our competitors worldwide demand that their natural gas resources be developed and marketed in different ways. In some countries, companies cannot develop oil resources unless they agree to develop the country's natural gas. In countries with a government-owned oil and gas monopoly, that government makes the decision to develop the gas and the private multinational companies must either cooperate or leave. In others, there is either an explicit or implicit threat of nationalization unless the private multinational companies agree to develop the country's natural gas deposits in a timely manner.

In short, the world plays hardball in the development of natural gas. Alaska does not. The main powers available to us to compel development of our resources are the taxing power and the power to require explicit terms in our gas leases.

The Alaska Natural Gas Pipeline Act of 2000 plays hardball in two different ways.

First, HB 399 encourages development of our resources by applying Alaska's oil and gas property tax rate of 20 mills to the natural gas resource under lease on the North Slope if certain benchmarks for agreeing to the sale of natural gas and for construction of the pipeline are not met. Under conservative estimates, there are at least 50 billion mcf of

natural gas on the North Slope waiting to be delivered to market. (mcf is thousand cubic feet and is the standard measure for natural gas) Some estimates go as high as 107 billion mcf. Some sales of natural gas on the North Slope between oil companies are made at \$3.50 per mcf. A value of \$1.00 per mcf is a more conservative estimate of the value of North Slope natural gas. A tax of 20 mills at a valuation of \$1.00 per mcf equates to 2 cents per mcf. Rather than assessing the tax at value, HB 399 assesses the tax on volume to avoid litigation about the value of North Slope natural gas. Using the lower estimates of 50 billion mcf of natural gas on the North Slope, HB 399 would yield about \$1 billion per year. This should provide an incentive for the leaseholders to develop the state's gas resource.

The gas reserves tax does not take effect if the leaseholders meet certain benchmarks. By 12/31/2002, the leaseholders must have signed agreements to sell a sufficient amount of natural gas to support the construction of a gas pipeline. This amount is set in the legislation at 650,000,000 mcf per year for at least a 20-year period. If the 2002 benchmark is met, then the gas reserves tax does not take effect until 12/31/2008. On this date, if the gas pipeline has been built, the gas reserves tax is permanently removed from the statutes. These benchmarks are reasonable and achievable goals towards the development of a natural gas pipeline.

Second, HB 399 inserts specific language into a lease, upon renewal or transfer of the lease, to require the sale of natural gas when certain conditions are met. The current lease language requires only general efforts towards development. We can and should be more specific about our reasonable expectations that our natural gas resources will be developed and marketed.