

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

2936 SCOMM 128: HOUSE SPEC. COMM. ON OIL AND GAS, 2001-02

SCOMM

128:25

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 220
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Oil and Gas Tax Credit BRU Revenue Operations
for Exploration and Development Component Tax Division
 Sponsor Representative Kott
 Requester House Oil and Gas Committee Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	See Analysis-----
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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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See Page 2.

Prepared by: Chuck Logsdon, Chief Petroleum Economist
 Division Tax Division
 Approved by: Larry Persily, Deputy Commissioner
 Agency Department of Revenue

Phone 269-1019
 Date/Time 3/1/02 6:22 PM
 Date 03/01/2002

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

BILL NO. HB 220

ANALYSIS CONTINUATION

This bill allows a tax credit of 10 percent of qualified capital investment and 100 percent of annual labor, seismic and associated service costs related to a corporation's qualified oil and gas exploration south of the Brooks Range. The credit would be applied against corporate income taxes (AS 43.20), and would be limited to 50% of a corporation's tax liability in any one year. The credit would only be allowed for oil reserves that produce less than 150 barrels of oil per day or for any gas reserves that produce any volume - large or small - of gas for sale and delivery.

The state oil and gas corporate income tax in FY 2001 brought in \$338 million. FY 2002 collections are projected at \$150 million, due to lower oil prices. If corporations were able to accumulate enough exploration and development credits under the legislation, the state's corporate tax revenue could be cut in half in any given year.

It is difficult to evaluate the overall revenue effect of a tax credit. If exploration activity leads to the discovery of new reserves that go into production, then the state would receive new royalty and production taxes that may or may not offset the revenue loss due to the tax credit.

The bulk of the oil and gas industry's current state corporate tax liability is from production of high-value oil on the North Slope, while the credit is primarily focused on the development of much lower-value natural gas reserves. Although most of the taxable oil and gas corporate income is earned north of the Brooks Range, only qualifying exploration and development expenditures south of the Brooks Range could be taken against total oil and gas corporate tax liability. For example, an oil and gas corporation that already has operations in Cook Inlet and the North Slope could, with enough qualifying expenditures, reduce its total oil and gas corporate income tax liability by 50%. Additionally, an oil and gas corporation that does not currently have any activities in Cook Inlet could buy into an existing Cook Inlet operation and thus qualify for the credits.

The key issue to tax credits is the extent to which the additional incentive is needed to make a project economic. The current law, AS 38.180(f)(5), already allows a specific royalty reduction to 5% on the first 35 million mcf of gas and 25 million barrels of oil produced from a number of Cook Inlet fields: Falls Creek, Nicolai Creek, North Fork, Point Starichkof, Redoubt Shoal and West Foreland. The commissioner of Natural Resources also has the ability to reduce the royalty rates on any field in the state for which the producers can demonstrate that it is necessary to make the production economic. Cook Inlet fields also currently benefit from a discovery royalty provision in AS 38.05.180(f)(4) and the ability to apply for an exploration incentive credit in AS 38.05.180 and AS 41.09.010.

This bill allows the credit without regard to the specific economics of development.

ALASKA STATE LEGISLATURE

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House of Representatives
House District 24

Sponsor Statement

HB 220

HB 220 creates a new income tax credit to encourage increased exploration and development of natural gas reserves, primarily in the Cook Inlet region. To qualify for the credit, operators must successfully drill and develop hydrocarbon reserves that produce gas for sale and delivery. The credit can offset no more than 50% of an operator's annual income tax liability and would be effective for a period of ten years.

The tax credit would amount to 10% of qualified capital investment for each year. For example, an operator who spends \$20 million in a given year successfully developing natural gas reserves would receive an income tax credit of \$2 million applicable up to one half of its income tax liability for that year. Credits in excess of 50% of the operator's income tax liability can be carried forward to future years. No credits will be given for dry holes or for development of crude oil reserves.

The Cook Inlet region continues to have great potential for additional natural gas production. However, the combination of high development costs and relatively low natural gas prices create a disincentive to drill for new gas reserves in this area compared to other places. By providing a credit for successful exploration efforts, more drilling will occur in Southern Alaska leading to much needed new natural gas reserves. This will benefit all residents and businesses at little cost to the state.

In addition to the benefit of developing new gas reserves, increased Cook Inlet drilling will also aid the general economic status on the Kenai Peninsula and in Anchorage. Moreover, increased tax revenue from additional hydrocarbon production should largely mitigate the fiscal impact of the proposed credit.

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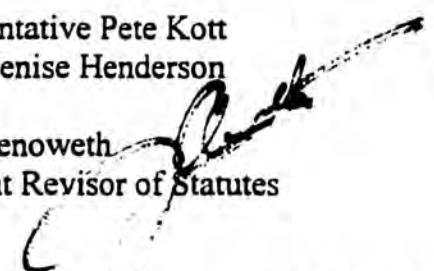
State Capitol
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Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 2, 2001

SUBJECT: House Bill 220, providing an oil and gas exploration and development incentive tax credit - sectional analysis (Work Order No. 22-LS0775\C)

TO: Representative Pete Kott
Attn: Denise Henderson

FROM: Jack Chenoweth 
Assistant Revisor of Statutes

The bill proposes to add, for a period of ten years before its repeal, provision for an oil and gas exploration and development incentive tax credit against the taxpayer's tax liability under the Alaska Net Income Tax Act (AS 43.20).

Bill section 1: This bill provision adds a new codified section, AS 43.20.043, that authorizes the credit and establishes its limitations:

-- subsection (a) authorizes the tax credit, applicable to any tax year beginning after 2001, against tax liability due under the Alaska Net Income Tax Act (AS 43.20); the amount of the allowable credit is based on 10 percent of the taxpayer's "qualified capital investment" (later defined) and 100 percent of the "qualified services" (also later defined) incurred by the taxpayer relating to a qualified capital investment;

-- subsection (b) sets parameters on what may qualify as a "qualified capital investment": those include cash expenditures or binding payment agreements made after December 31, 2001, for assets first placed in service during the tax year, as that phrase is defined in paragraph (2) of this subsection;

-- subsection (c) sets a maximum limit that may be claimed as a credit against the taxpayer's Net Income Tax liability: that limit is set at 50 percent of liability; expenditures that qualify for the credit in excess of the limit may be carried forward and applied in later tax years until exhausted or for not more than five years;

-- subsection (d) sets out the procedural requirements for claiming the credit and assigns the burden of proof for entitlement to the credit;

Representative Pete Kott
April 2, 2001
Page 2

-- subsection (e) sets out conditions on what may be done with a credit to which the taxpayer becomes entitled, under threat of forfeiture of any portion of an unused credit carry-forward;

-- subsection (f) imposes a geographic limitation on activity that may qualify for the credit: the credit is not available if an otherwise satisfactory "qualified capital investment" or "qualified services" associated with that investment occur north of 68 degree North latitude (generally, Alaska's Arctic Slope);

-- subsection (g) defines applicable key terms: it is within the definition that the substantive limitation of "property used . . . in the exploration and development of oil and gas reserves" is capped at production of oil of less than 150 barrels per day (though investment for recovery of gas for sale and delivery is set without limitation as to amount).

Bill section 2: This transitional provision is included so that a taxpayer, entitled by AS 43.20.043 to a full five-year period in which to claim as a carry-forward any unused portion of the tax credit, may make the claim on or after January 1, 2012, (the date set in **bill section 4** for repeal of the authority to claim the credit) until the earlier of the date on which any unused portion of the carry-over is exhausted or until December 31, 2016 (the day before the fifth anniversary of the credit's repeal). In other words, a taxpayer basing a claim of credit on qualifying improvements or services made as late as December 31, 2011, may have the full five years to exhaust its use.

Bill section 3 repeals the oil and gas exploration and development incentive tax credit.

Bill section 4 sets the effective date of the repeal of the credit at January 1, 2012.

Bill section 5, an effective date provision, gives the measure an immediate effective date.

JBC:glc
01-291.glc

Alaska State Legislature

House of Representatives

RULES COMMITTEE, CHAIR
COMMITTEE ON COMMITTEES
LABOR & COMMERCE COMMITTEE
MILITARY & VETERANS AFFAIRS
LEGISLATIVE COUNCIL



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SESSION:
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JUNEAU, AK 99801

Memorandum

To: Rep. Scott Ogan
From: Rep. Pete Kott
Date: February 13, 2002

Regarding: HB 220
Oil & Gas Exploration Incentives

Attached to this memorandum is a copy of HB 220, relating tax incentives for oil and gas exploration. At this time, I would like to request a hearing in the Oil & Gas Committee, at the earliest opportunity.

If you need any more information, Linda Sylvester is the contact person for this item.



Representative Pete Kott

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**Testimony of John A Barnes, Marathon Oil Co, in
support of State of Alaska HB 220
House Oil and Gas Committee
March 5, 2002**

Good morning. My name is John ~~A~~^{Manager} Barnes. I am the ~~Business~~^{Business}
~~Unit Leader~~ for Marathon Oil Company's Alaska Business ~~Unit~~.

Before I begin, I would like to extend the appreciation of Marathon Oil Company, as well as my own, for this opportunity to testify in support of House Bill 220.

- Bill structure -

Marathon Oil Company's Alaskan operations are focused on the Cook Inlet natural gas business. Last year we produced and sold 68.25 BCF, which is an annual average of 187 mmscfd. This production rate set a Marathon record for annual sales. While this is a significant production rate in and of itself, during cold spells in December of last year Marathon produced at instantaneous rates in excess of 300 mmscfd.

This is an accomplishment for which every member of our Alaskan business is extremely proud. I can tell you however, that this achievement requires not only the hard work of these Alaskans, but also ongoing investments in wells and infrastructure. Furthermore the regulatory and permitting environment also plays a key role in the ability to predictably bring projects ^{to production} ~~on~~ within budget, and on time.

Finally, and to no one's surprise, project economics are critical to getting projects approved. This is the area in which HB 220 can have the largest impact. Alaskan project economics are not only considered on their absolute merit, but they are also scrutinized on a relative scale in comparison to other worldwide opportunities in which Marathon ^{and other operators} may invest. The intent of HB 220 is to level the's playing field so to speak.

HB 220 is intended to provide an incentive to oil and gas development activities through an investment tax credit. Briefly,

under this bill qualified expenditures could be applied as a credit to offset future income tax liabilities. This credit could not be used to offset more than 50 percent of the taxpayer's tax liability.

Additionally, the term would be limited to five years.

To be effective for both the State of Alaska and the producer, the credit must act as an incentive to exploration and development activities. I'd like to talk briefly at this time about how HB 220 will impact Marathon, and presumably other producers, as we evaluate investment opportunities.

Speaking in regards to the Cook Inlet gas business, three issues impact investment decisions. These are resource base, market opportunities, and finally the price the gas can be sold for.

As most of you are aware, the Cook Inlet gas business is critical to the Anchorage and Kenai Peninsula economies. First, natural gas provides clean, cost-effective fuel to heat and light homes and

businesses. It also serves as an important feedstock for two industries, the Agrium fertilizer and Phillips/Marathon LNG plants. These businesses, provide important jobs as well as local taxes. I'd also like to mention that Marathon currently services over 60 percent of the local utility market and was the first producer which has sold to all three markets.

Over the last several years, several technical evaluations have been completed looking at Cook Inlet reserves and resources. The current Cook Inlet reserve base is ^{approximately 2,000} _____ BCF based on the latest DNR information. At an annual consumption rate of just over 200 ^{about 9-10} BCF per year, this is equivalent to _____ years of production. These reserves are considered proven, both developed, ^{which are capable of production} and undeveloped for which some additional work is required to bring them on production.

By local analogy, proven developed reserves are equivalent to :
"the fish is in the boat. You've weighed him, you can smell him, and you will eat him."

Similarly, proven undeveloped reserves may be typified by :

“the fish is on your hook by the boat and you are ready to net him.

You can tell how big he looks, but remember they look bigger in the water.”

I'd now like to discuss resources. *First I'll mention probable reserves.* These represent unproved gas volumes which engineering and geological data suggests are more likely than not to be recoverable. For the Cook Inlet, various State, Federal and other organizations have provided estimates. One such group is the Potential Gas Committee, which has estimated Cook Inlet probable reserves at 1050 BCF, or around five years of consumption at current rates.

A probable reserve definition could read:

“there are fish in the river. You may have caught some yesterday.

You may even be able to see them, but you have not caught any today.”

The final category to consider is possible reserves, which represents gas volumes which engineering and geological analysis suggest are less likely than probable reserves to be recovered. The same Potential Gas Committee has estimated Cook Inlet possible reserves at 2100 BCF.

A possible reserves definition could read:

“there is water in the river. Someone may have told you there are fish in the river. You have your boat on the trailer, but you may go play golf instead.”

In summary, technical analysis strongly suggests there are additional gas reserves in the Cook Inlet to explore for and to develop. Unfortunately, these reserves are more difficult to find, and more costly to develop. These risk and cost factors play against drawing investments to the Cook Inlet. But let me repeat myself, technical data supports the probability of finding additional Cook Inlet reserves.

The next area to consider in evaluating investments in the Cook Inlet is market. Although the Cook Inlet consumes a lot of gas every year, it is for all intents and purposes a closed market. At this time, no clear definition of available utility markets exists for

sales closer than 2009. This is a disincentive to investments.

In fact, a major world class producer has ^{recently} stated publicly they see

Some ~~However~~, producers may be willing to make investments for other

non-utility market opportunities, or in speculation that utility

opportunities may open up sooner. ^{But} Again, lack of market

opportunities will serve to drive investment funds elsewhere.

the Cook
Inlet gas
market
as closed,
and do
not plan to
invest in it.

The final area to consider in evaluating Cook Inlet gas opportunities is the price for which the gas may be sold. It is in this area where HB 220 may serve as an incentive. Historically, most Cook Inlet local gas sales are made at prices significantly below that which is received for gas in the lower-48. The most recent Enstar utility gas sales contracts however, are priced at or above Lower-48 benchmarks, which are above Enstar's existing legacy contracts. These higher prices will help encourage new

ENSTAR has stated they used this price structure in recognition of the need to incentivize investments in the Cook Inlet gas industry.

investments to the Cook Inlet. Unfortunately not all producers can avail themselves of these prices. Additionally, some gas purchasers may not be able to pay these higher prices either. It is in this area where the impact of HB 220 must be carefully considered.

Let me walk through a scenario which encompasses the three areas I have touched on, those being resource, market and price.

If a producer looks at the Cook Inlet, he will evaluate his prospects of finding gas on a risk basis. Once he believes the risks are acceptable, he will look to the market. He will see that some market opportunities ^{may} exist, but probably not at the gas sales price he might receive if he spent his money in the lower-48 or elsewhere in the world. This is where HB 220 may swing his decision to send investment dollars to Alaska. Furthermore, if sufficient funds from multiple companies are attracted to Alaska, and the Cook Inlet specifically, sufficient gas reserves may be

found which may either attract new industries or create sufficient
competition to ^{ultimately} benefit consumers.

In summary, Marathon Oil Company believes HB 220 can serve as
a stimulus to maintain or even enhance Cook Inlet exploration and
development activities.

May I answer any questions.

-Fiscal Note

SCOMM

128:26

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 302
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Alaska Gas Corporation BRU Administration and Support
Component Commissioner's Office
Sponsor Representative Whitaker
Requester House Oil and Gas Committee Component No. 123

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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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—Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation directs the Joint Committee on Natural Gas Pipelines to submit a project plan by January 2003 on "whether the construction and operation of a natural gas transmission pipeline project ... by a public corporation is feasible." The plan would include findings, recommendations and conclusions from engineering and consulting firms on a detailed list of gas supply, financial, regulatory, market, local-hire and local-buy matters. If the project is judged feasible, the legislation directs that a new entity within Revenue, the Alaska Gas Corporation, would be responsible for one or more of the following: design, construction, operation and maintenance of the pipeline.

Because a legislative committee would pay for and manage the feasibility study, that portion of this legislation would not effect the department's operating budget.

And because the feasibility of the project, and the state's possible role in construction and/or operation of the project, would be determined by the feasibility study, it is premature at this time for the department to estimate any budgetary needs for the new public corporation.

Prepared by: Larry Persily, Deputy Commissioner Phone 465-5469
Division Department of Revenue Date/Time 4/1/02 7:20 PM
Approved by: Wilson Condon, Commissioner Date 4/1/2002
Agency Department of Revenue

Alaska State Legislature

Representative Jim Whitaker
House of Representatives
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Sponsor Statement House Bill 302 – Alaska Gas Corporation

Article VIII, Section 2 of the Constitution of the State of Alaska specifies that, "the legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people." For many years, the State of Alaska has relied heavily on the production of oil to foster its livelihood, provide opportunities for its people, and generate revenues to ensure continued prosperity. We have all seen and enjoyed the positive effects of oil development. However, oil price fluctuations and reduced competition resulting in reduced production have adversely affected the State's ability to provide a secure economic future. As we face an enormous budget deficit, we must look beyond our reliance on oil production, budget cutting, and taxation as the only means of ensuring a long-term fiscal solution. It is incumbent upon the leaders of this state to recognize that further resource development is critical in order to secure an additional and substantial revenue stream to the State of Alaska. Conservatively, 100 trillion cubic feet of natural gas is stranded on the North Slope, and the failure to recognize this vital resource as a valuable commodity is in direct conflict with the provisions of the Constitution of the State of Alaska.

In order to facilitate the extraction and sale of natural gas, House Bill 302 establishes the Alaska Gas Corporation. The prime responsibility of the corporation is to provide for a basic commodity transportation system: a natural gas pipeline system; open to all potential competitors, and open to all realistic market access opportunities.

Overcoming a number of impediments is essential in order for a project of this nature to become a reality. We have extensively studied the economics, market viability, financial needs, and regulatory obstacles associated with the construction and operation of this project. However, in order to truly understand the economic viability of the Alaska Gas Corporation, we must turn to professionals in the engineering, financial and market sectors in order to establish absolute economic feasibility, and an associated project plan.

House Bill 302 requires a natural gas pipeline feasibility study and plan be completed and presented to the twenty-third Alaska State Legislature and the Governor. This report shall contain specific information pertaining to technical, financial, regulatory and market access matters relating to the project. The passage of HB 302 is of paramount importance in order to move forward and develop our natural resources in the maximum best interest of the citizens of the State of Alaska.

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MEMORANDUM

April 2, 2002

SUBJECT: House Bill 302 -- sectional analysis
(Work Order No. 22-LS1205\C)

TO: Representative Jim Whitaker

FROM: Jack Chenoweth
Assistant Revisor of Statutes

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

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

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

Article I.

The sections identified as AS 41.41.010 - 41.41.130 are set out to define the organization of the corporation:

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

AS 41.41.020 creates the corporation's board of directors, a board composed of six public members. The general qualifications of persons to serve as members are stated, and the corporation's obligation to establish its organization is set out.

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

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

AS 41.41.050 defines quorum and voting requirements.

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

AS 41.41.070 authorizes the board to employ an executive director who, in turn, is assigned responsibility for selection and employment of additional staff "with the approval of the board." The concluding subsection authorizes the corporation to contract for specialized services.

AS 41.41.080: Provisions of law requiring disclosure of financial and business interests (AS 39.50) are made applicable to members of the board. In addition, provision is made for specific disclosure of information concerning a board member's or employee's involvement in an entity or project "in which assets of the corporation are invested."

AS 41.41.090 sets out the budgetary and financial relationship between the corporation and the state's budget and fiscal procedure acts.

AS 41.41.100 authorizes the Legislative Budget and Audit Committee to undertake post audit and performance evaluation of corporate obligations.

AS 41.41.110 prescribes publication of an annual report of the corporation and the contents of the report.

AS 41.41.120 bars the corporation from using its resources to finance or influence political activities.

AS 41.41.130 defines information in the corporation's possession that is or is not to be treated as a public record under AS 40.25.110 - 40.25.140 and sets limits on the use or disclosure of confidential, non-disclosable information.

Article 2.

The one section in this article, **AS 41.41.200**, enumerates general powers of the corporation.

Article 3.

The sections identified in **AS 41.41.300 - 41.41.410** generally bear upon the corporation's issuance of securities (bonds and notes and other evidence of debt). Much of the material

is technical boilerplate and is included so that, as a public corporation, under article IX, section 11 of the state constitution, the corporation enjoys full authority to contract debt based on its ability to repay out of its anticipated future revenues:

AS 41.41.300: This section authorizes issuance of revenue bonds and related evidence of debt, using provisions not unlike those included in chapters establishing other public corporations of the state to facilitate the use of debt obligations.

AS 41.41.310 prescribes permissible covenants that the corporation's board may make in conjunction with issuance of revenue bond debt.

AS 41.41.320 makes the level of the corporation's authorized debt subject to legislative authorization.

AS 41.41.330 permits the board to contract for the services of an independent financial advisor in conjunction with private sale of debt instruments.

AS 41.41.340 describes the nature of the corporation's pledge of its assets or revenues to payment of principal and interest on corporation-issued debt.

AS 41.41.350 details use of "capital reserve funds" to meet repayment obligations in conjunction with the corporation's indebtedness.

AS 41.41.360 addresses remedies available to holders of debt obligations and their representatives to enforce the timely payment of an obligation or a related obligation.

AS 41.41.370 makes the corporation's obligations negotiable instruments.

AS 41.41.380 explicitly makes the corporation's obligations permissible investments for public officers and for others handling surplus funds as identified in the section's text.

AS 41.41.390 authorizes use of refunding bonds as a device to adjust the corporation's bond obligations to obtain the benefit of more advantageous terms and conditions.

AS 41.41.400 affirms that, because the corporation's obligations are revenue-based debt instruments, the credit of the state is not pledged. Liability on the debt instrument is limited to the assets and revenues of the corporation.

AS 41.41.410 releases the corporation's officers from personal liability with reference to action taken by the corporation with respect to a debt obligation.

Article 4.

The one section in this article, AS 41.41.450, authorizes the Alaska Gas Corporation to acquire and hold property and interests in property "necessary or convenient for the financing of the [Trans Alaska Gas Pipeline] project."

Article 5.

The article contains general provisions:

AS 41.41.900 reaffirms the blanket immunity from taxation that the Alaska Gas Corporation enjoys and provides a general tax exemption provision: the corporation and its operations and earnings are exempt from taxes and assessments in the state; bonds and security instruments are exempted from taxes and assessments made by the state.

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

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

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

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

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

JBC:med
02-343.med

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MEMORANDUM

January 21, 2002

SUBJECT: Applying the standard applicable under article XI, section 4, Constitution of the State of Alaska, is House Bill 302 ("An Act establishing the Alaska Gas Corporation . . . ") "substantially the same measure" as Initiative 01GSLN ("The All-Alaskan Gasline Initiative")? (Work Order No. 22-LS1205/C)

TO: Representative Jim Whitaker

FROM: Jack Chenoweth
Assistant Revisor of Statutes



Question presented:

You have asked whether House Bill 302, "An Act establishing the Alaska Gas Corporation . . . ", would be found to be "substantially the same measure" as Initiative 01GSLN, the "All-Alaskan Gasline Initiative." A determination that the bill, passed by the current legislature and enacted into law, is substantially the same measure as the initiative would void the initiative petition thereby requiring the lieutenant governor to order the initiative, if properly filed, removed from the November general election ballot.

Short answer:

For the reasons considered and discussed below, in my judgment the differences between the initiative and the bill should not be sufficient to defeat a determination by the lieutenant governor that the bill and the initiative are substantially the same.

Discussion:

The applicable constitutional provision is set out in the last sentence of article XI, section 4 of the state constitution:

Initiative Election. An initiative petition may be filed at any time. The lieutenant governor shall prepare a ballot title and proposition summarizing the proposed law, and shall place them on the ballot for the first statewide election held more than one hundred twenty days after adjournment of the legislative session following the filing. *If, before the election, substantially the same measure has been enacted, the petition is void.*

The provision is supplemented by a statute, AS 15.45.210:

Determination of void petition. If the lieutenant governor, with the formal concurrence of the attorney general, determines that an act of the legislature that is substantially the same as the proposed law was enacted after the petition had been filed, and before the date of the election, the petition is void and the lieutenant governor shall so notify the committee.

The test for invalidating the petition under the "substantially the same measure" standard is considered by the Alaska Supreme Court in *Warren v. Boucher*, 543 P.2d 731 (Alaska 1975). The nub of the test appears in the following two paragraphs:¹

¹ To accommodate analysis in the text of this memo, I want to set out the extent of the court's discussion in its entire context:

. . . In order to interpret this language [i.e. the meaning of "substantially the same measure"] we must analyze its functional relationship to other constitutional provisions. We must infer the purposes and intentions of the framers from the language of the constitution itself, with careful regard for the apparent aims which the framers had in mind.

The words "substantial" or "substantially" are relative, inexact terms. Their meaning is quite elusive. *Application of Scroggin*, 103 Cal. App. 2d 281, 229 P.2d 489 (1951). The meaning of such terms can be derived only [by] reference to all the circumstances surrounding the context in which they are used. *Atchison, T. & S.F. Ry. v. Kings County Water District*, 47 Cal.2d 140, 302 P.2d 1, 3 (1956). So here, we believe that the term "substantially the same measure" must be viewed against the total structure contemplated in Art. XI of our constitution in the matter of direct legislation.

. . . By providing that the legislative enactment of substantially the same measure could have the effect of voiding an initiative, the framers empowered the legislature to cut off initiated legislation from consideration and vote by the general public. The manner in which Art. XI, Sec. 4, was amended in the constitutional convention makes this clear. The original proposal at the convention would have required that an initiative could be voided only by legislative enactment of "the measure initiated". Read literally, this would require that the language of both measures be identical. However, as discussed above, the final constitutional language requires merely that "substantially the same

measure" be enacted by the legislature in order to void an initiative petition.

It is clear that the legislative act need not conform to the initiative in all respects, and that the framers intended that the legislature should have some discretion in deciding how far the legislative act should differ from the provisions of the initiative. The question, of course, is how great is the permitted variance before the legislative act becomes no longer substantially the same.

Upon reflection we have concluded that the legislature's discretion in this matter is reasonably broad. If in the main the legislative act achieves the same general purpose as the initiative, if the legislative act accomplishes that purpose by means or systems which are fairly comparable, then substantial similarity exists. It is not necessary that the two measures correspond in minor particulars, or even as to all major features, if the subject matter is necessarily complex or if it requires comprehensive treatment. The broader the reach of the subject matter, the more latitude must be allowed the legislature to vary from the particular features of the initiative.

. . .

The constitution thus vests broad authority in the legislature to vary the terms of an initiated law, after its adoption, by the process of amendment. This power amounts to a check or balance against the initiative process. No doubt the legislature was given this power to assure that initiatives which were ill-advised, which might seriously cripple or frustrate the sound workings of government, or which might be impracticable, could be altered or corrected rapidly by the legislature. It was obviously intended by the framers that the initiative process should not be permitted to disrupt vital governmental functions or to impose intolerable burdens upon established administrative systems. To this end the legislature was given the ability to substitute its judgment for that of the proponents of an initiative.

What is significant to us here is the effect which the amendatory power of the legislature has upon our interpretation of the words "substantially the same measure." For if the legislature has broad power of amendment, it follows that it has broad power to change an initiative by an enactment covering the same subject as the initiated measure. In short, we must interpret Art. XI, Sec. 4, broadly and not narrowly as to the scope of legislative power. . . .

It is clear that the legislative act need not conform to the initiative in all respects, and that the framers intended that the legislature should have some discretion in deciding how far the legislative act should differ from the provisions of the initiative. The question, of course, is how great is the permitted variance before the legislative act becomes no longer substantially the same.

Upon reflection we have concluded that the legislature's discretion in this matter is reasonably broad. If in the main the legislative act achieves the same general purpose as the initiative, if the legislative act accomplishes that purpose by means or systems which are fairly comparable, then substantial similarity exists. It is not necessary that the two measures correspond in minor particulars, or even as to all major features, if the subject matter is necessarily complex or if it requires comprehensive treatment. The broader the reach of the subject matter, the more latitude must be allowed the legislature to vary from the particular features of the initiative.

Warren v. Boucher, 543 P.2d 731, at 736.

Dissimilarities in the statement of findings and intent of the respective measures aside, House Bill 302 differs substantively from the initiative² in these significant aspects:

- (1) the description of the "services and functions" of the corporation, coupled with the definition of the term "project" and the manner of treatment of the obligation to develop a "project plan";
- (2) the size of the board, qualifications of its members, duration of terms of the members' board service, and compensation due members for their services;
- (3) the issue of legislative confirmation of board members;
- (4) differences in treatment of the corporation's/authority's legal representation;

Warren v. Boucher, 543 P.2d 731, at 735 - 736 (emphasis added; notes omitted).

² If the initiative appears on the ballot and is approved by the voters, it has to be codified. Just to have it on record, assuming that the text of the initiative set out on the state Internet entry is accurate, there are several minor editorial matters that need attention: in AS 41.41.310(8), the word "provide" was omitted and should be reinserted before "for"; the section catchline for AS 41.41.410 duplicates the catchline for the preceding section, is inappropriate as to the section's contents, and should be revised to read "Officers not liable."

(5) the matter of the disposition of corporate/authority earnings "in excess of future operating needs";

(6) the explicit handling in the initiative, omitted from the bill, of the subjects of "project term agreements with labor organizations," employment opportunities for state residents, and the use of experienced Alaska businesses; and

(7) the express power given to the authority (but not to the corporation) to "acquire natural gas supplies."

I'll briefly discuss each in order.

1. The description of the "services and functions" of the corporation, coupled with the definition of the term "project" and the manner of treatment of the obligation to develop a "project plan":

The initiative assigns the authority a different mandate than does the bill. In the description of the "services and functions" set out in the initiative's AS 41.41.010, in the initiative's definition of "project" for the new chapter, and in the description of the project plan in an uncodified section at the end of the initiative, the scope of the project incorporates reference to a pipeline system to tidewater and a spur line to southcentral Alaska, and makes reference to gas (as LNG) distribution to Yukon River and coastal communities. The bill, as you know, addresses only the delivery to the interior and then along the Alaska Highway to Canada or to tidewater, or both.

The initiative and the bill both include provisions applicable to early development of a project plan. Though the elements that the plan is to address are not congruent, there is overlap. What differs, of course, is the identity of the entity to undertake the plan--a legislative joint committee under the bill and the new authority under the initiative--and the requirement of the bill that the project plan determine "whether the construction and operation of a natural gas transmission pipeline project by a public corporation is feasible," while the initiative seems to presuppose the project's feasibility and the board of directors of the proposed authority is directed to begin by producing a development plan.

These differences are not insignificant. The bill, clearly, reflects an immediate concern by the legislature that the North Slope's reserves be made available overland to domestic North American and overseas markets, while the initiative omits overland domestic North American market considerations and focuses on overseas shipments and opportunities for instate use. Because of the magnitude of the financing attending construction of one or two pipelines, the legislature is understandably more cautious about the project's feasibility and requires evidence of operational success rather than starting from the assumption, as the initiative does, that the project's success may be inferred.

But, while not insignificant, the differences do not seem to me to be fatal to a determination that the bill is "substantially the same measure" as the initiative. *Warren v. Boucher* acknowledges the opportunity of the legislature to "vary from the particular features of the initiative" while achieving the same general purpose. That, arguably, is exactly what is happening. The approach used in the bill is more conservative in its initial approach and takes cognizance of circumstances (specifically, overland transportation of natural gas to domestic North American markets) that may not have been commercially viable when the initiative was crafted. These differences should not, in my view, be regarded as sufficient to defeat a determination that the bill and the initiative are substantially the same.

2. The size of the board, qualifications of its members, duration of terms of the members' board service, and compensation due members for their services:

Differences between the initiative and the bill relating to six versus seven board members, qualifications of appointees, duration of service, and compensation payable are technical matters and should not, in my judgment, be sufficient to defeat a determination that the bill and the initiative are substantially the same.

3. Legislative confirmation of board members:

The state constitution does not now authorize legislative confirmation of members of public corporations (by whatever name denominated). The initiative requires legislative confirmation of board members; the bill omits the requirement. The bill avoids the constitutional argument and, consistent with language in *Warren v. Boucher* speaking to the authority of the legislature to take corrective action, improves (legally speaking) the content of the initiative on this point. The difference is not, in my judgment, sufficient to defeat a determination that the bill and the initiative are substantially the same.

4. The corporation's/authority's legal representation:

The initiative expressly assigns legal representation to the attorney general; the bill omits the express provision and adds selection of legal counsel as a discretionary power of the board. While, under the bill, the attorney general may nevertheless assert authority to represent the proposed corporation under powers spelled out in AS 44.23.020, the difference in treatment of this issue as between the initiative and the bill is not, in my judgment, sufficient to defeat a determination that the bill and the initiative are substantially the same.

5. The matter of the disposition of corporate/authority earnings "in excess of future operating needs":

The bill, but not the initiative, provides that

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

Its inclusion in the bill is arguably a reflection of the third paragraph of the bill's statement of findings ("the production of oil and gas from state land is an important source of revenue to the state and job opportunities for all people of the state;") and is not inconsistent with inclusion of similar approaches in other chapters establishing and defining the powers and duties of state public corporations requiring disclosure (if not actual transfer) of fund balances in excess of operating requirements. Again, under the analysis of *Warren v. Boucher*, the court acknowledges that the legislature has latitude to vary from the content of an initiative if the subject matter is "necessarily complex". Identifying the corporation's activities as a potential general fund revenue source is surely a matter of more concern to the legislature than to sponsors of the initiative. *Warren v. Boucher* allows this variance, it seems to me, and the difference in treatment of this issue as between the initiative and the bill is not, in my judgment, sufficient to defeat a determination that the bill and the initiative are substantially the same.

6. Explicit handling in the initiative, omitted from the bill, of the subjects of "project term agreements with labor organizations," employment opportunities for state residents, and the use under contract of experienced Alaska businesses:

As between the initiative and the bill, treatment of these matters differ. The initiative adds mandatory no-strike "project term agreements," resident hire, and business contractor and supplier preference provisions; the bill omits mandatory language but does require documentation of compliance or expected compliance with related requirements in conjunction with development of the project plan expected to make a determination that "construction and operation of a natural gas transmission pipeline project . . . is feasible." Moreover, the bill's approach arguably starts from recent legislative experience in this area wherein some substantially similar requirements were not directly addressed in law but were required to be added as contract terms. So, for example, the Stranded Gas Development Act, ch. 104, SLA 1998, directs the commissioner of revenue to address use of Alaska businesses and state residents as a condition of a contract providing incentives under that Act to encourage investment to develop stranded gas resources, while, earlier, legislation authorizing amendment of the Northstar Unit oil and gas leases, ch. 139, SLA 1996, addressed resident employment and instate business contracting requirements by legislative intent statements attending legislative approval of the measure.

Admittedly these differences are also material. In contrast to the mandatory language of the initiative, the legislature's approach is, understandably, relatively more cautious, and may simply reflect its appreciation of the constitutional constraints that do attach to state-initiated mandatory resident hire or local action requirements. To that end, substitution of the approach set out in the bill is defensible under that part of the *Warren v. Boucher* analysis that expresses legislative power to address initiative provisions that were "ill-

advised" or that might be "[legally] impracticable." On that basis, difference in treatment of this issue as between the initiative and the bill should not, in my judgment, be sufficient to defeat a determination that the bill and the initiative are substantially the same.

7. The express power given to the authority (but not to the corporation) to "acquire natural gas supplies."

Both the initiative and the bill permit the corporation/authority to acquire property. The initiative adds, at its AS 41.41.200(6), language by which the board, "in furtherance of its corporate purposes," may "acquire natural gas supplies." If the bill is enacted, presumably the board of the corporation would not have need of this express authority--the bill contemplates operation and maintenance of the natural gas pipeline system would involve third-party contracts. On the other hand, if it becomes clear that the corporation must own natural gas if construction and operation of the project are to be successfully undertaken, the absence of language expressly permitting acquisition of gas supplies should not defeat the exercise of general authority by the corporation to acquire gas supplies as "property." Presumably, the project plan development provisions will provide guidance as to whether or not state intervention and acquisition of gas supplies would be essential to successful development and operation of the completed project.

This provision frames what I believe may be the chief characteristic difference between the approach set out in the initiative and the one proposed in the bill. The initiative sponsors' statement declares that the authority is established for the purpose that it would "acquire and condition North Slope natural gas." In contrast, the bill directs use of third parties for the development and operation of the natural gas pipeline system contemplated. Again, the difference in approach may simply reflect an appreciation that the measure proposed and enacted should reflect the state's role as a project facilitator rather than assuming active development and operational responsibility. The legislature understands--the initiative sponsors may not--that the state Right-of-Way Leasing Act and federal legislation favoring expanded development of a domestic North American natural gas system for Alaska North Slope gas already provide guidance to and incentive for private, not state-directed, design, construction, and operation of either a tidewater delivery system, an overland delivery system, or both. While I recognize that this characteristic difference is important, nothing in the *Warren v. Boucher* analysis compels the conclusion that, as to a matter that is "necessarily complex" and that surely requires "comprehensive treatment," the legislature may not exercise its discretion and "substitute its judgment for that of the proponents of the initiative." As to a project of this size, the legislature surely has latitude to determine the manner in which limited state resources may be committed to achieve the outcome sought by you and the initiative sponsors. Differences in this treatment as between the initiative and the bill should not, in my judgment, be sufficient to defeat a determination that the bill and the initiative are substantially the same.

The constitutional provision and statute first cited assign determination of whether or not an enacted bill represents "substantially the same measure" as a valid initiative to the lieutenant governor. My reading of the test and its application to HB 302 and Initiative 01GSLN lead me to conclude that the proposed legislation has the same general purpose as the initiative and is fairly comparable in its choice of means or system to what has been described in the initiative. Some of the differences do not seem to me to be material. Insofar as the differences are material, because the bill's variant provisions arguably serve to sidestep possible legal and practical shortcomings of the initiative as submitted, they should be regarded as consistent with the legislature's authority to substitute its judgment and to take corrective action.

On that basis, then, it is my judgment that differences between the initiative and the bill as introduced should not be sufficient to defeat a determination by the lieutenant governor that the bill and the initiative are substantially the same. Whether or not she would make the determination that the bill and initiative are, under the standard of *Warren v. Boucher*, substantially the same measure is not for me to say.

JBC:med
02-029.med

SCOMM

128:27

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____

Bill Version: HB 307

() Publish Date: _____

Revision Date/Time (Note if correction): _____

Title: Oil/Gas Exploration Incentive Credit

Dept. Affected: Natural Resources

BRU: Oil and Gas Developmen

Component: Oil and Gas Developmen

Sponsor: Rep. Fate

Requester: (H) Oil and Gas

Component Number: 439

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	0 to -30 mil	0 to -30 mil	0 to -30 mil	0 to -30 mil	0 to -30 mil
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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 (FY2002) cost: none

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill extends the deadline for completion of activity qualifying for exploration incentive credits under AS 41.09.010 until July 1, 2007. The credits may be applied against royalties, rentals, taxes, and bonus bids. These credits may also be assigned to other companies so that they may be applied to their royalties, rentals, taxes, and bonus bids. However, under AS 41.09.010(f), a credit may not exceed \$5 million per eligible project and the entire program may not exceed \$30 million. Within one basin a single exploration program could cost as much as \$30 million.

Prepared by: Mark D. Myers, Director

Division: Oil and Gas

Approved by: Pat Pourchot

Agency: Natural Resources

Phone: 269-8800

Date/Time: 30-Jan-02

Date: 30-Jan-02

ANALYSIS: (continued)

The DNR Commissioner has discretion whether to grant EICs. If he does decide to grant EICs, he may grant anywhere between 10 percent and 50 percent on state land and between 10 percent and 25 percent on non-state lands.

*If the program is fully utilized, the state could grant as much as \$30 million in credits that would normally be deposited in the general fund.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 307
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Oil / Gas Exploration BRU Revenue Operations
Incentive Credit Component Tax Division
Sponsor Representative Fate
Requester House Committee on Oil and Gas Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	0.0	0.0	See Analysis-----			
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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--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The exploration incentive credit in statute is designed to accelerate the exploration of state oil and gas leases and to acquire geological and geophysical information on state, federal and private land. This credit is approved at the discretion of the Commissioner of Natural Resources. The credit is transferable, so that it would have value to entities that do not have current royalty obligations or tax liabilities as well as to those that do.

This bill would delay the sunset provision in the current law from an expiration date of June 30, 2004 to June 30, 2007. No exploration credits have been applied against corporate income tax (AS 43.20) or royalties under the current law. The maximum amount of credits that can be taken is \$30 million. The revenue effect of this bill would therefore be between \$0 and \$30 million.

Prepared by: Chuck Logsdon, Petroleum Economist Phone 269-1019
Division: Tax Division Date/Time 1/30/02 3:25 PM
Approved by: Larry Persily, Deputy Commissioner Date 01/30/2002
Agency: Department of Revenue

REPRESENTATIVE
HUGH "BUD" FATE

Mailing Address:
119 N. Cushman, Suite 101
Fairbanks, AK 99701
(907)488-0862
Fax: 488-4271

Alaska State Legislature



House Of Representatives

SPONSOR STATEMENT

HB 307

OIL/GAS EXPLORATION INCENTIVE CREDIT

House Bill 307 will extend the exploration incentive credit for petroleum for an additional three (3) years. This will allow for further exploration into the possibility of natural gas and oil in the Tanana River Drainage Basin.

There is presently renewed interest in exploring for natural gas in the above described basin near Nenana. This simply extends its sunset provision from 2004 to 2007.

While in session:

State Capitol
Juneau, Alaska
99801-1182
(907)465-4976
Fax: (907)465-3883

House District 33

MEMORANDUM:

Alaska State Legislature

**REPRESENTATIVE
HUGH "BUD" FATE**

Mailing Address:
119 N. Cushman, Suite 101
Fairbanks, AK 99701
(907)488-0862
Fax: 488-4271



While in session:

State Capitol
Juneau, Alaska
99801-1182
(907)465-4976
Fax: (907)465-3883

House Of Representatives

House District 33

To: Representative Ogan

From: Representative Fate

Concerning: House Bill 307

Date: January 24, 2002

I would like to request a hearing for House Bill 307, "An Act delaying to June 30, 2007, the last date by which hydrocarbon exploration geophysical work must be performed or drilling of a stratigraphic test well or exploratory well must be completed in order for a person to qualify for an exploration incentive credit." in the House Special Committee on Oil and Gas at your earliest possible convenience.

I have attached relevant information for the back up packet. Thank you for your assistance.

Via Facsimile (907) 488-4271
Number of Pages: 2
To: Ms. Sharon Clark
From: Jim Dodson

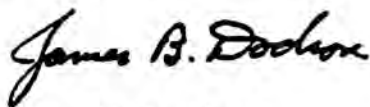
Dear Ms. Clark:

Pursuant to a conversation I had with Bob Evans, I am sending you the following page outlining the changes to Alaska law which my company, Andex Resources, L.L.C., believes would be incentives to natural gas exploration within central Alaska and the Fairbanks area. Andex is a privately funded natural gas and oil exploration company headquartered in Houston, with offices in Denver and Oklahoma City.

Our company has filed with the Alaska Department of Natural Resources for an oil and gas exploration license on approximately 500,000 acres of State lands in the Nenana Basin, west-southwest of the city of Fairbanks. We believe that the Nenana Basin has significant potential to provide a supply of natural gas to the city of Fairbanks and the surrounding area. The area is however, not a producing oil and gas province, and the financial risks associated with natural gas exploration in that basin are therefore very high. The proposals on the next page would reduce those financial risks of exploration and increase the rewards of success to act as incentives to exploratory drilling.

Thank you for your consideration of this matter. I can be reached at (303) 244-1020 and my address is: Andex Resources, L.L.C., 707 17th Street, Suite 3150, Denver, CO 80202.

Sincerely,

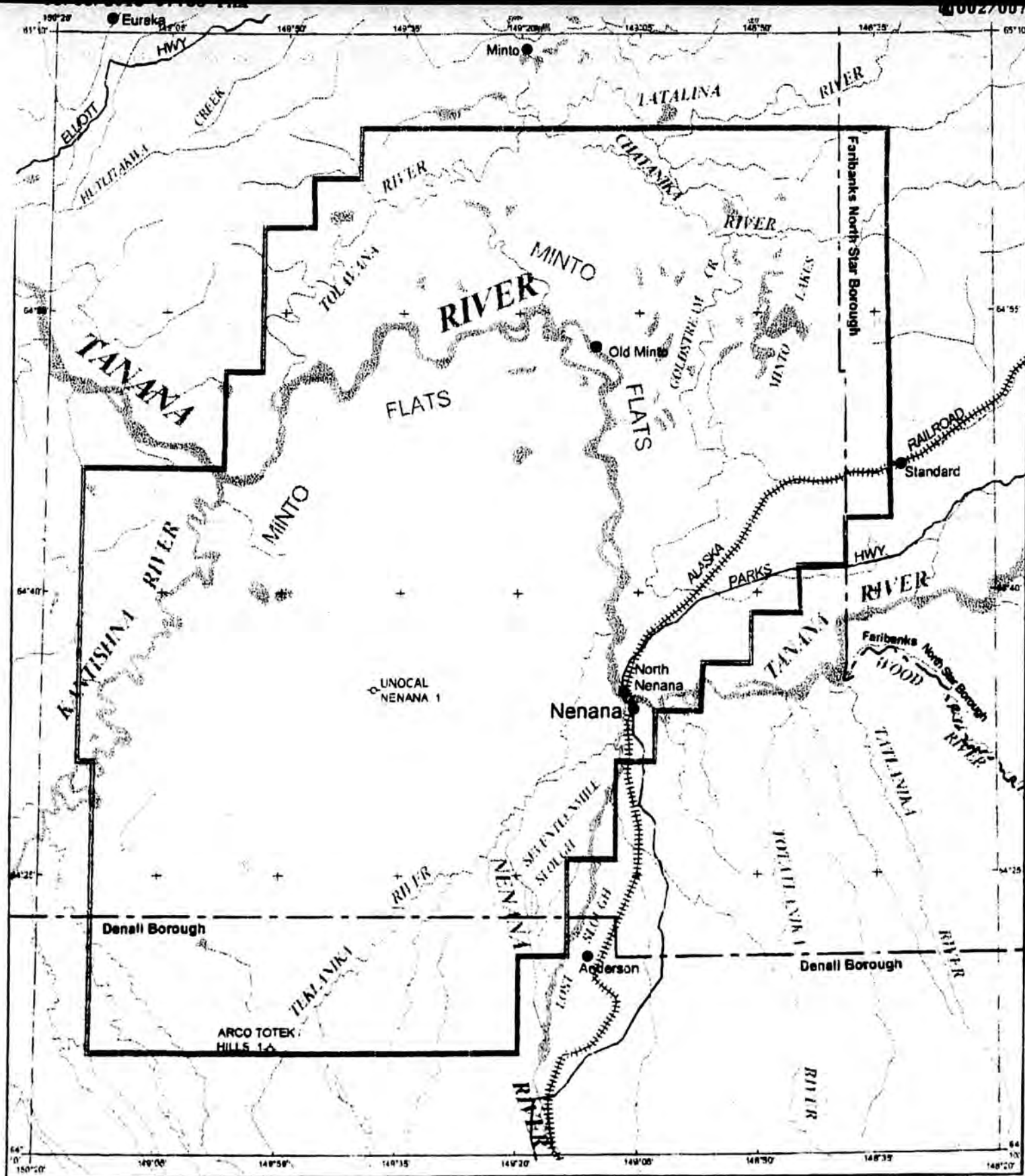


James B. Dodson
Executive Vice-President

Background Information

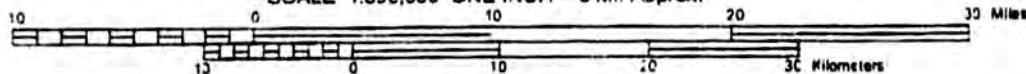
The development of natural gas resources in the Fairbanks, Alaska area could be assisted by two changes to Alaska law. The pertinent statutes and the changes to those statutes which would help to develop natural gas in central Alaska are as follows:

- 1) AS 41.09.010 provides for exploration incentive credits (EIC's) to be granted to parties who explore for natural gas within interior basins of Alaska. The EIC's created by this statute create an added incentive for interior Alaska exploration and could reduce the financial risk of exploration for an oil and gas company. This statute has a sunset provision of July 1, 2004. A three year extension of this statute would grant companies interested in central Alaskan exploration more time to qualify for the exploration incentive credits, which would make them more likely to take on the financial risks of drilling exploratory wells.
- 2) AS 38.05.180(f)(4) provides a reduced royalty for new discoveries of oil or natural gas in the Cook Inlet Region as a way of stimulating exploration activity that could increase the supply of natural gas to the Anchorage area. It reduces the royalty on a state lease on which a new discovery is made from 12.5% down to 5% for the first 10 years of production from that lease. This royalty reduction only applies within the Cook Inlet Sedimentary Basin. Amending this statute to grant equal dignity to the sedimentary basins of interior Alaska would act as a powerful incentive to companies interested in exploring for oil and natural gas in central Alaska.



Nenana Basin Study Area

SCALE 1:500,000 ONE INCH = 8 Mi. Approx.



Map created, edited, and published by the State of Alaska, Department of Natural Resources, Division of Oil and Gas.
 Albers Equal-Area Conic Projection, 1927 North American Datum. Gage 1886 ellipsoid with a central meridian of 149° 20' 00", origin latitude of 50°, northern parallel of 65° and southern parallel of 55°.
 This is not an official tract map, but is for informational purposes only. DNR makes no claim as to its accuracy.

ADNR 4/01



Andex close to Nenana deal, gas could go to Anchorage

By Kay Cashman

PNA Publisher

Jim Dodson, executive vice president of Andex Resources LLC of Houston, told PNA that his firm is "very close to a deal with Doyon" to explore and develop the oil and gas resources of approximately 38,000 acres in the Nenana sedimentary basin in Interior Alaska.

The privately owned independent is also working with the state for an exploration license in the basin. Dodson said Doyon Ltd. was instrumental in getting Andex interested in what geologists view as a gas-prone area.

"The Andex license application is for several hundred thousand acres in the basin. Our land is in a fairly strategic location in the deepest part of the basin. We're an island within state land," Doyon Vice President of Lands and Natural Resources Jim Mery told PNA.

"Doyon has been a tremendous source of information for us. We couldn't have put together the picture we have — the picture that made us go after this deal — without Doyon," he said.

Two right-of-ways to Anchorage

The Nenana basin, which Doyon Ltd. documents said could hold reserves "on the order of 250 million barrels of recoverable oil and 250 Bcf to 1 Tcf of recoverable gas," was explored by ARCO Alaska in the early 1980s. ARCO drilled a well in the basin in 1984 but dropped its plans for further exploration when oil prices collapsed, Mery said.

It has enough gas, Dodson believes, to meet market demands for Fairbanks and possibly Anchorage: "We see a home heating market in Fairbanks and an electric generation market. We also see a market for supplanting diesel and other fuels to Interior mines. It's a 30 million to 50 million cubic feet a day market (for natural gas) in the Interior. ...

"If we found a significant gas discovery up there we could seriously look at supplying Anchorage," Dodson added.

"By Alaska standards the Nenana basin is not that far from Anchorage. ... We're south of the Brooks Range and there are two rights of way that could be used for a pipeline between the basin and Anchorage

— the highway and the railroad.”

Seismic winter of 2002-2003

Andex's work commitment is confidential, Dodson said. “There won't be any seismic or geophysical work this winter. We expect to shoot our first seismic in the winter of 2002-2003.”

Andex is a good choice for development in the basin, Mery said. Mark Myers, director of the state Division of Oil and Gas, agreed with him.

Both men pointed to the fact that the company is well-funded, involved with other projects in Alaska and looking to get even more involved in the state. (See articles in this issue about Netricity and the Slugger unit.)

“We have been working with them for over a year and gotten to know them very well. A lot of them are old Shell Oil people. ... Andex's president, Ernie LaFleur, was head of Alaska exploration for Shell. I am very impressed with their geology staff,” Mery said.

Native issues

Andex appears sensitive to the Native issues that surround any development in the Nenana basin, Mery said.

“While we at Doyon are supportive of oil and gas in this area, we are still very committed to making sure that the state in its best interest finding process for Andex's exploration license has all the information in front of it to make sure that the appropriate mitigation measures can be taken to avoid negative impacts on the area. ...

Mery said there are a “number of youth cultural camps and other educational activities centered out of old Minto village on the Tanana River, as well as important hunting, trapping and fishing that takes place on numerous lakes in the Minto Flats, all of which would be in the general area of the possible exploration and would have to be taken into consideration.

Alaska office a possibility

The focus of Andex's exploration will be gas, Dodson said.

“When industry explored the basin in the early '80s, their focus was oil but they knew it was a gas-prone basin and thought there was also a good shot at oil. Andex's focus is gas. We'd be happy if we found oil, but our focus is traditional natural gas,” he said.

An Alaska office is something “we may have one of these days, depending how big our business in Alaska gets,” Dodson said.

SCOMM

128:28

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 308
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title Oil / Gas Leases; BRU Revenue Operations
Discovery Royalty Credit Component Tax Division
 Sponsor Representative Fate
 Requester House Committee on Oil and Gas Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
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 ()	See Analysis-----
-------------------------------	--------------------------

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2002) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The discovery royalty provision in statute reduces the state royalty rate to 5% for qualified discoveries of oil and gas. This bill would extend the discovery royalty provisions of existing law, which apply to Cook Inlet, to the Tanana River drainage. The reduced royalty applies to the production from the pool attributed to the lease on which the discovery well was drilled and is for a period of 10 years from the date of discovery.

It is not known at this time how many, if any, pools of economically recoverable reserves of oil or gas there are in the Tanana River drainage. We also don't know whether this bill is necessary to cause exploration wells to be drilled. For these reasons it is not easy to predict what effect this bill would have on revenues. At gas prices around \$2.00/mcf, annual royalty revenues would be reduced by \$550,000 for every discovery lease well producing 10,000 mcf of gas per day. At oil prices of \$15/bbl at the wellhead, annual royalty revenues would be reduced by \$4 million for every 10,000 barrels of oil produced per day from the discovery lease.

Prepared by: Chuck Logsdon, Petroleum Economist Phone _____
 Division: Tax Division Date/Time 1/30/02 3:18 PM
 Approved by: Larry Persily, Deputy Commissioner Date 01/30/2002
 Agency: Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number:

Bill Version:

HB 308

() Publish Date:

Revision Date/Time (Note if correction):

Dept. Affected:

Natural Resources

Title: Oil/Gas Leases; Discovery Royalty Credit

BRU:

Oil and Gas Developmen

Component:

Oil and Gas Developmen

Sponsor: Rep. Fate

Requester: (H) Oil and Gas

Component Number:

439

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
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 ()	See Revenue Impact Analysis Below
-------------------------------	--

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 (FY2002) cost:

none

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 308 would reduce the royalty rate from 12.5 percent to 5 percent for leases in the Tanana River drainage basin. The 5 percent discovery royalty rate would apply to all production of oil or gas from that pool for a period of 10 years from the date of discovery.

It is not known at this time how many, if any, pools of economically recoverable oil and gas reserves exist in the Tanana River drainage basin. DNR also doesn't know whether HB 308 is necessary to cause exploration wells to be drilled. For these reasons it is not easy to predict what effect this bill would have on revenues. Continued.

Prepared by: Mark D. Myers, Director

Division: Oil and Gas

Approved by: Pat Pourchot

Agency: Natural Resources

Phone 269-8800

Date/Time 30-Jan-02

Date 30-Jan-02

ANALYSIS: (continued)

At gas prices around \$2.00/mcf, royalty revenues would be reduced by \$5.5 million for every discovery lease well producing 10,000 mcf of gas per day produced over the 10 year period. However, the presumed market for gas produced from the Tanana River basin is Fairbanks. Gas is currently delivered in LNG form at \$8 mcf creating a very lucrative market for commercial gas development.

At oil prices of \$15/bbl at the wellhead, royalty revenues would be reduced by \$40 million for every 10,000 barrels of oil produced per day from the discovery lease over the 10 year period.

REPRESENTATIVE
HUGH "BUD" FATE

Mailing Address:
119 N. Cushman, Suite 101
Fairbanks, AK 99701
(907)488-0862
Fax: 488-4271

Alaska State Legislature



House Of Representatives

While in session:

State Capitol
Juneau, Alaska
99801-1182
(907)465-4976
Fax: (907)465-3883

House District 33

SPONSOR STATEMENT

HB 308

OIL/GAS LEASES; DISCOVERY ROYALTY CREDIT

House Bill 308 will provide that a royalty discovery credit such as allowed for Cook Inlet oil and gas will be made available to the Tanana River Drainage Basin. This allows companies drilling for oil and gas in the area near Nenana to be on the same royalty footing with those companies producing in Cook Inlet.

Once again, interest in this basin is being dusted off and new information and technology raises the potential for oil and gas discovery in the Tanana River Drainage Basin. This will also be a huge boost the rural Alaskan economy and to the economy of the state as a whole if oil and gas are actually found in commercial quantities.

MEMORANDUM:

Alaska State Legislature

**REPRESENTATIVE
HUGH "BUD" FATE**

Mailing Address:
119 N. Cushman, Suite 101
Fairbanks, AK 99701
(907)488-0862
Fax: 488-4271



While in session:

State Capitol
Juneau, Alaska
99801-1182
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House Of Representatives

House District 33

To: Representative Ogan

From: Representative Fate

Concerning: House Bill 308

Date: January 24, 2002

I would like to request a hearing for House Bill 308, "An Act extending to discoveries of oil or gas in the Tanana River drainage basin the discovery royalty credits that are authorized for lessees of state land drilling exploratory wells and making the first discovery of oil or gas in an oil or gas pool and for licensees under oil and gas exploration licenses making the first discovery of oil or gas in an oil or gas pool that convert those licenses to oil and gas leases." in the House Special Committee on Oil and Gas at your earliest possible convenience.

I have attached relevant information for the back up packet. Thank you for your assistance.

Via Facsimile (907) 488-4271

Number of Pages: 2

To: Ms. Sharon Clark

From: Jim Dodson

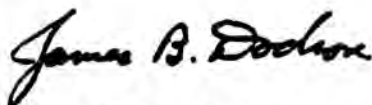
Dear Ms. Clark:

Pursuant to a conversation I had with Bob Evans, I am sending you the following page outlining the changes to Alaska law which my company, Andex Resources, L.L.C., believes would be incentives to natural gas exploration within central Alaska and the Fairbanks area. Andex is a privately funded natural gas and oil exploration company headquartered in Houston, with offices in Denver and Oklahoma City.

Our company has filed with the Alaska Department of Natural Resources for an oil and gas exploration license on approximately 500,000 acres of State lands in the Nenana Basin, west-southwest of the city of Fairbanks. We believe that the Nenana Basin has significant potential to provide a supply of natural gas to the city of Fairbanks and the surrounding area. The area is however, not a producing oil and gas province, and the financial risks associated with natural gas exploration in that basin are therefore very high. The proposals on the next page would reduce those financial risks of exploration and increase the rewards of success to act as incentives to exploratory drilling.

Thank you for your consideration of this matter. I can be reached at (303) 244-1020 and my address is: Andex Resources, L.L.C., 707 17th Street, Suite 3150, Denver, CO 80202.

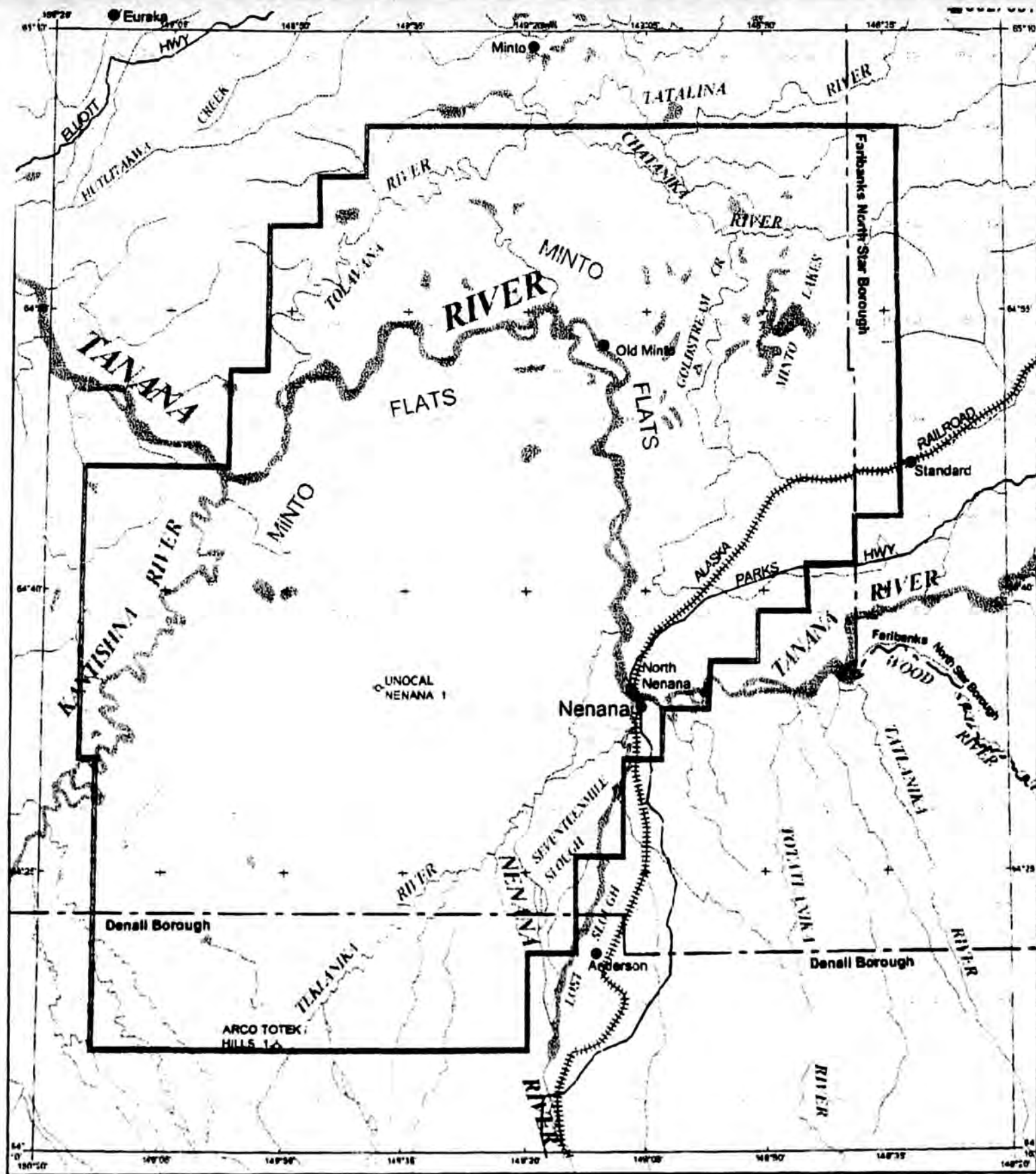
Sincerely,



James B. Dodson
Executive Vice-President

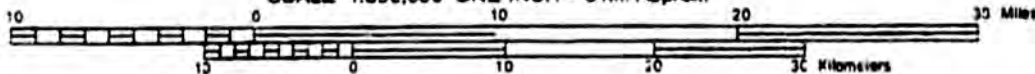
The development of natural gas resources in the Fairbanks, Alaska area could be assisted by two changes to Alaska law. The pertinent statutes and the changes to those statutes which would help to develop natural gas in central Alaska are as follows:

- 1) AS 41.09.010 provides for exploration incentive credits (EIC's) to be granted to parties who explore for natural gas within interior basins of Alaska. The EIC's created by this statute create an added incentive for interior Alaska exploration and could reduce the financial risk of exploration for an oil and gas company. This statute has a sunset provision of July 1, 2004. A three year extension of this statute would grant companies interested in central Alaskan exploration more time to qualify for the exploration incentive credits, which would make them more likely to take on the financial risks of drilling exploratory wells.
- 2) AS 38.05.180(f)(4) provides a reduced royalty for new discoveries of oil or natural gas in the Cook Inlet Region as a way of stimulating exploration activity that could increase the supply of natural gas to the Anchorage area. It reduces the royalty on a state lease on which a new discovery is made from 12.5% down to 5% for the first 10 years of production from that lease. This royalty reduction only applies within the Cook Inlet Sedimentary Basin. Amending this statute to grant equal dignity to the sedimentary basins of interior Alaska would act as a powerful incentive to companies interested in exploring for oil and natural gas in central Alaska.



Nenana Basin Study Area

SCALE 1:500,000 ONE INCH = 8 MI. Approx.



Map created, edited, and published by the State of Alaska, Department of Natural Resources, Division of Oil and Gas.
 Albers Equal-Area Conic Projection. 1927 North American Datum. Central meridian of 149° 20' 07", origin latitude of 50°, northern parallel of 65° and southern parallel of 55°.
 This is not an official tax map, but is for informational purposes only. DNR makes no claim as to its accuracy.

ADNR 4/01

SCOMM

128:29

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 410
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Alaska Natural Gas BRU Administration & Support
Development Authority Component Commissioner's Office
Sponsor House Oil & Gas Committee
Requester House Oil & Gas Committee Component No. 123

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	**	**	**	**	**	**
CAPITAL EXPENDITURES	**	**	**	**	**	**
CHANGE IN REVENUES ()						

FUND SOURCE	(Thousands of Dollars)					
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type—Do not abbreviate)						
TOTAL	**	**	**	**	**	**

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached pages for bill analysis and explanation of operating/capital costs for the new public authority.

Prepared by: Larry Persily, Deputy Commissioner Phone 465-5469
Division Department of Revenue Date/Time 3/13/02 12:48 PM
Approved by: Wilson Condon, Commissioner Date 3/13/2002
Agency Department of Revenue

HB 410 - Department of Revenue Fiscal Note

PURPOSE OF LEGISLATION

This bill establishes within state government the Alaska Natural Gas Development Authority. The sole purpose of this public corporation would be to engage in one or more of the following activities to bring North Slope natural gas to tidewater at Valdez for export as liquefied natural gas (LNG), with a natural gas pipeline spur from Glennallen to the Southcentral distribution grid:

1. Acquire and condition North Slope natural gas.
2. Design and construct the pipeline.
3. Operate and maintain the pipeline.
4. Design, construct and operate other facilities necessary for delivering the gas to market and to Southcentral.
5. Acquire natural gas market share sufficient to ensure the long-term feasibility of the project.

EFFECT ON BALLOT INITIATIVE

This legislation very closely follows the All-Alaskan Gasline Initiative and, as such, in our opinion, if it is adopted into law this year would result in the lieutenant governor's office removing the All-Alaskan Gasline Initiative from the November 2002 statewide ballot.

DEVELOPMENT COSTS

We have focussed in this fiscal analysis on the up-front costs of planning, designing and constructing the project. We have not estimated annual operating costs for the project.

First, it is important to point out there are no guarantees that this bill will result in a successful project and, under this legislation, the state would be exposed to taking commercial risks that no private firm has yet been willing to assume.

Furthermore, this project could have the effect of displacing a similar private project. Although nothing in this legislation would preclude private developers from proceeding with a separate natural gas project, a state-directed project could dissuade others from undertaking their own effort to commercialize Alaska's North Slope natural gas reserves.

In developing this fiscal note, we did not consider any of the opportunity costs, such as foregone tax revenue (this bill exempts the authority's pipeline from property taxes, whereas a privately built project would not be exempt from property taxes and would pay corporate income taxes).

For purposes of preparing this fiscal note, we estimated the total cost of the project at \$16 billion, including: the gas conditioning plant on the North Slope; the main pipeline to Valdez, Southcentral spur and compressor stations; and a liquefaction plant and marine terminal at Valdez (but excluding LNG tankers). This cost estimate may be at the upper end of projections, but we believe the state should prepare for the high end rather than hope for the low end.

HB 410 - Department of Revenue Fiscal Note

We estimate mobilization and construction would take four years. The estimated cost for acquiring existing permits and engineering, negotiating gas purchase and LNG sales contracts is assumed at \$250 million, spread over two years. These rough estimates also include the cost of operating the Alaska Natural Gas Development Authority, most of which would be contractual costs for consultants and companies with the expertise needed for such a project.

For purposes of the fiscal note, we show the cost to the state for 100% ownership in the project and also the cost if the state holds a 12.5% equity stake. It is possible the state might want to limit its equity investment in the project in order to conserve its limited cash. The terms of any private investments, the risks to other investors and the rewards they might expect cover a wide range of options. We also believe the state would be required to put up 100% of the initial permitting, design and engineering costs in the first year and 50% in the second year before it could attract a partner or partners to share in the actual construction costs.

Year	Cash needs at 100%	Cash needs at 12.5%
One	\$100 million	\$100 million (assumes 100% state funding)
Two	\$150 million	\$75 million (assumes 50% state funding)
Three	\$4 billion	\$500 million
Four	\$4 billion	\$500 million
Five	\$4 billion	\$500 million
Six	\$4 billion	\$500 million

Although this legislation authorizes the Natural Gas Development Authority to issue revenue anticipation notes — presumably to raise the capital for construction of the project without drawing on state funds — it is unrealistic to expect that the authority could borrow any money or obtain any financing until such time that it had permits and a design for the project and signed contracts in hand to buy gas from North Slope producers and sell LNG to customers.

REVENUE

The department believes the provision in this legislation — that the project will be in full production in 2007 — is, at best, overly optimistic by at least one year. We believe it is not possible, assuming this measure were to pass this session, to plan and design and obtain all the necessary permits and specialized equipment and materials and construct the project in 5½ years. Therefore, we have not included any estimate of state revenues in this fiscal note, which extends only to Fiscal 2008. Estimates are extremely difficult to prepare because they depend on the unknown factors of construction costs, purchase price of the gas and market price to sell the gas.

We also believe it is likely there would never be any revenue to the state from this project because Alaska LNG cannot compete in either the Asian or California market. There is too much other gas elsewhere in the world that can be delivered into both markets at a lower cost than Alaska LNG.

HB 410 - Department of Revenue Fiscal Note

The Department of Revenue also wants to point out that any Alaska LNG project would have to overcome several competitive factors to succeed in the marketplace:

- Gas has much lower energy density than oil. To transport it chews up a lot of value. This puts Alaska at a disadvantage to other projects worldwide that do not need 800 miles of pipe to tidewater. The line puts Alaska at a \$2/mcf disadvantage at 1 to 2 bcf/d, and \$1.50 at 4 bcf/d. In addition, conditioning to remove high CO2 levels of North Slope gas is about \$0.30/mcf.
- To reduce the per-unit transportation cost requires a big project, and a big project means big risk. Financiers would prefer fifteen \$1 billion dollar projects to one \$15 billion project. Smaller projects are more adaptable, and can be stopped more easily if things go wrong.
- Current demand for LNG in Asia is about 70 million tons per year (mta). If it were to grow very robustly, at 5% per year for 10 years, demand would be 114 mta in 2010. This is an increase of 44 mta. Current gas projects and easy expansions of existing gas projects could supply 24 mta of this demand. Thus only about 20 mta (3 bcf/d) would be uncontracted. Even at 1 bcf/d (7 mta), Alaska would have to capture one-third of the available market.
- Gas reserves elsewhere around the Pacific Rim are 20 times greater than the volume of North Slope reserves. These reserves are at tidewater and do not need an expensive pipeline. Considering just the easily developed reserves, there will be the potential of more than 200 mta of supply chasing 20 mta of demand.
- LNG shipping costs have come down drastically in recent years: 50% in the past 10 years, due to the proliferation of new shipyards and competition. Accordingly, the maritime shipping distance from market is less important than it used to be. Thus, Alaska's distance advantage relative to Mideast gas suppliers to Asia is no longer as significant.
- Where pricing in Asia used to be tied to oil prices, which resulted in high prices in periods of high oil prices and low prices in periods of low oil prices, the power and utility industries in Japan are becoming deregulated. Thus the utilities will be competing to buy gas at the lowest possible price. With the oversupply of gas looking at the market, there is a sufficient possibility that prices will revert to their marginal costs — and Alaska gas will be the highest marginal cost gas in Asia.
- Alaska LNG could be shipped to the U.S. West Coast instead of or in addition to Asian markets. However, the department estimates it would cost more than \$4/mcf to bring gas from the North Slope to the U.S. West Coast, exceeding the long-term price forecast of \$3 to \$3.50 and exceeding estimates for the cost of imported LNG into the region. This \$4/mcf estimate is based on a \$14 billion, 4 bcf/day project.

Page 5 of 5

HB 410 - Department of Revenue Fiscal Note

- Finally, our analysis of development costs show that moving Alaska natural gas by pipeline to California would be cheaper by more than \$1/mcf than moving it to Valdez, liquefying it, shipping it by tanker and regassifying it in Baja, Mexico or Southern California for distribution.

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 410
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Law
Title "An Act establishing the Alaska Natural Gas BRU Civil Division
Development Authority, a public corporation, and . . ." Component Oil, Gas, and Mining
Sponsor House Special Committee on Oil and Gas
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 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	116.5	116.5	116.5	116.5	116.5	349.5
Travel	0.2	0.2	0.2	0.2	0.2	0.6
Contractual	22.2	22.2	22.2	22.2	22.2	66.6
Supplies	2.0	2.0	2.0	2.0	2.0	6.0
Equipment	6.5					13.0
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	147.4	140.9	140.9	140.9	140.9	435.7

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1007 Interagency Receipts	147.4	140.9	140.9	140.9	140.9	435.7
TOTAL	147.4	140.9	140.9	140.9	140.9	435.7

Estimate of any current year (FY2002) cost: 0.0

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

POSITIONS

Full-time	1	1	1	1	1	3
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

HB 410 establishes the Alaska Natural Gas Development Authority (ANGDA) as a public corporation charged with developing, constructing, managing, and operating a natural gas pipeline from the North Slope of Alaska to tidewater and a spur line to Southcentral Alaska natural gas distribution grid. The attorney general will serve as general counsel for the authority.

The Department of Law believes that the services of one FTE attorney will be required to represent the ANGDA during the development phase of the pipeline(s). Once pipeline operations commence, additional legal services will be required. The Alaska Railroad Corporation employs three FTE attorneys, and we assume the ANGDA would require a similar level of legal services. The bill requires the pipeline be in full production by 2007, and we have added the additional positions in FY 2008 for the purposes of this fiscal note.

Prepared by: Joan M. Kasson
Division: Attorney General's Office
Approved by: Kathryn Daughhetee for Bruce M. Botelho, Attorney General
Agency: Department of Law

Phone (907) 465-5370
Date/Time 3/14/02 3:56 PM
Date 3/14/2002

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

BILL NO. HB 410

ANALYSIS CONTINUATION

HB 410 requires that the ANGDA be self-supporting, with its revenues identified as the source of its operating budget. We assume that Department of Law's financial relationship with the authority will be similar to the other self-supporting public corporations we represent, and that the authority will pay for its legal services through a reimbursable services agreement. Therefore, the fund source is identified as interagency receipts.

Costs are based on the department's FY03 approved cost allocation plan, and include clerical support, communications, space, supplies, data processing, and other normal overhead expenses. One-time equipment costs are not included in the rate, and are added separately in FY 2003 and 2008.

LEGAL SERVICES

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

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

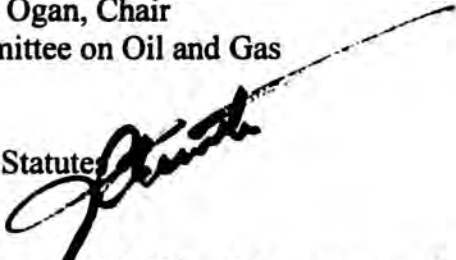
State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 13, 2002

SUBJECT: House Bill 410 -- Sectional analysis
(Work Order No. 22-LS1459\A)

TO: Representative Scott Ogan, Chair
House Special Committee on Oil and Gas

FROM: Jack Chenoweth
Assistant Revisor of Statutes 

The measure substantially replicates Initiative 01GSLN.¹ The sponsors of the initiative provided this summary of its contents:

This bill would create the Alaska Natural Gas Development Authority (Authority) as a public corporation of the State. The Authority would acquire and condition North Slope natural gas, and construct a pipeline to transport the gas. The Authority's powers would include buying property or taking it by eminent domain, and to issue state tax-exempt revenue bonds. The gasline route would be from Prudhoe Bay to tidewater on Prince William Sound and the spur line from Glennallen to the Southcentral gas distribution grid. The Authority would operate and maintain the gas pipeline, ship the gas, and market the gas.

House Bill 410 follows the content of the initiative in all material respects.²

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

Bill section 2 adds a new chapter, AS 41.41. Within the new chapter are separate articles establishing the Alaska Natural Gas Development Authority as a public corporation of

¹ On Tuesday, Lieutenant Governor Ulmer certified the petition for this initiative as properly filed, thereby scheduling it for inclusion on the November general election ballot.

² My February 8 memo to you that accompanied the first draft of the work order notes that I modified language in the initiative relating to construction contract provisions under article 5 of AS 41.41, added by bill section 2, and omitted from the language of the initiative that board members of the new authority be confirmed by the legislature as violative of the limitation on legislative confirmation discussed in *Bradner v. Hammond*, 553 P.2d 1 (Alaska 1976).

the state, including provisions applicable to a board of directors, staff, and other basic operational requirements (article 1), defining the authority's powers (article 2), boilerplate provisions empowering the authority's issuance of its bonds, notes, and other evidence of indebtedness for its purposes (article 3), setting out the basis for the authority's acquisition of property that it considers "necessary or convenient for the financing of the [gas transmission] project or a part of the project" (article 4), prescribing certain project construction requirements (article 5), and setting out a tax exemption and definitions for terms used in the bill (article 6). The section catchlines summarize the content of the related provisions.

The critical provision for the measure, as for the initiative, is its definition of the "project" for which the Authority is established. Under proposed AS 41.41.990(3):

"project" means the gas transmission pipeline, together with all related property and facilities, to extend from the Prudhoe Bay area on the North Slope of Alaska to tidewater at a point on Prince William Sound, and a spur line from Glennallen to the Southcentral gas distribution grid, and includes planning, design, and construction of the pipeline and facilities as described in AS 41.41.010(a).

The scope of the project envisioned by the initiative and by this measure does not contemplate the pipeline now under consideration that tracks the Trans Alaska oil pipeline project to the Interior with a connection, following the Alaska Highway, to the North American natural gas grid in northern Alberta. In addition, because the "project" contemplates "operation and maintenance of the pipeline system [AS 41.41.010(a)(3)]," the measure, like the initiative, empowers the Authority to "acquire natural gas supplies," but whether that acquisition occurs in any manner apart from acquisition by purchase in the market is, at best, uncertain under both the initiative and the measure.

Bill section 3 adds the members of the board of directors and the employees of the proposed Alaska Natural Gas Development Authority to the exempt service under the State Personnel Act (AS 39.25).

Bill section 4 adds the members of the board of directors and the Authority's chief executive officer to the list of persons covered by the chapter (AS 39.50) requiring financial disclosures by public officials.

Bill section 5, an uncodified provision, adds a requirement that the board of directors initiate and complete preparation of a development plan for the proposed Alaska natural gas pipeline project.

Bill section 6, another uncodified provision, sets out staggered terms for the persons first appointed to the board of directors of the Authority.

LEGAL SERVICES

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

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

MEMORANDUM

February 8, 2002

SUBJECT: Draft bill that is "substantially the same" as Initiative 01GSLN, establishing the Alaska Natural Gas Development Authority. (Work Order No. 22-LS1459\A)

TO: Representative Scott Ogan, Chair
House Special Oil and Gas Committee

FROM: Jack Chenoweth
Assistant Revisor of Statutes



Per Linda Hay's request, the enclosed draft generally adheres to the provisions of the related initiative with these exceptions:

-- I did not carry forward from the initiative the language requiring that board members of the new authority be confirmed by the legislature. The authority is a public corporation; the members of boards of the state's public corporations are not subject to legislative confirmation under the rationale of *Bradner v. Hammond*, 553 P.2d 1 (Alaska 1976).

-- I modified language in AS 41.41.500, substituting for the terms "prehire" and "no-strike" substantially similar verbiage. I would only point out to you that the requirements, even as modified, may present constitutional arguments grounded on claims of equal protection violation. The shortcoming, if any, arises out of the initiative, not as a new provision of this bill.

I did not spend any great amount of time or effort trying to make certain that the substantive provisions of the draft bill are consistent with its stated findings and intent.

JBC:med
02-121.med

NOTICE OF CERTIFICATION OF BALLOT INITIATIVE
Initiative on Gas Pipeline Development Authority

Lieutenant Governor Ulmer certified on September 4, 2001, an application for an initiative petition entitled, "The All-Alaskan Gasline Initiative: An Act establishing the Alaska Natural Gas Development Authority, to maximize revenues for Alaska and jobs and gas for Alaskans".

The following is an impartial summary of the initiative included in the petition booklets and the proposed ballot language:

Initiative on Gas Pipeline Development Authority

This bill would create the Alaska Natural Gas Development Authority (Authority) as a public corporation of the State. The Authority would acquire and condition North Slope natural gas, and construct a pipeline to transport the gas. The Authority's powers would include buying property or taking it by eminent domain, and to issue state tax-exempt revenue bonds. The gasline route would be from Prudhoe Bay to tidewater on Prince William Sound and the spur line from Glennallen to the Southcentral gas distribution grid. The Authority would operate and maintain the gas pipeline, ship the gas, and market the gas.

Should this initiative become law?

Lieutenant Governor Ulmer certified the petition for this initiative as properly filed on March 12, 2002. The initiative will appear on the 2002 general election ballot (AS 15.45.150).

The Lieutenant Governor has determined that the petition complies with Alaska Statute 15.45.140 which requires that the petition be signed by 28,783 signatures from qualified voters, which equals ten percent of those who voted in the 2000 general election. Those voters must also reside in at least two-thirds (27) of the election districts in the state. A total of 28,982 signatures were verified.

If the Lieutenant Governor, in concurrence with the Attorney General, determines that the Alaska Legislature passes a law that is substantially the same as the proposed initiative, the petition will be void and not appear on the ballot (AS 15.45.210).

Under Alaska Statute 15.45.240, within 30 days of the date on which notice of this petition certification determination was given, any person "aggrieved by a determination made by the Lieutenant Governor" may bring action in the superior court to have the determination reviewed. The deadline for action is April 11, 2002. The deadline has passed for challenge of the Lieutenant Governor's earlier actions on this initiative.

Additional information, copies of the initiative, interpreter services, or other accommodations can be obtained by contacting the following:

Division of Elections - (907) 465-4611
www.gov.state.ak.us/lsgov/elections/

or

Office of the Lieutenant Governor - (907) 465-3520
www.gov.state.ak.us/lsgov/



Alaska Division of Elections

PETITION STATUS REPORT As of March 12, 2002

01GSLN - The All-Alaskan Gasline Initiative: An Act establishing the Alaska Natural Gas Development Authority, to maximize revenues for Alaska and jobs and gas for Alaskans:
Application was certified September 4, 2001. The petition was filed on January 11, 2002. Lieutenant Governor Ulmer certified the petition for this initiative as properly filed on March 12, 2002. The initiative will appear on the 2002 general election ballot (AS 15.45.150).

**"The All-Alaskan Gasline Initiative:
An Act establishing the Alaska Natural Gas Development Authority,
to maximize revenues for Alaska and jobs for Alaskans"**

01GSLN

AG's File Number: 663.02.0026

Primary Sponsors: Scott Heyworth; Tyrone Neel; Mike Macy

The petition application was received in the Lieutenant Governor's Office on August 1, 2001. A copy of the application and signatures were sent to the Department of Law and Division of Elections on August 1, 2001 for review and verification of signatures. The Division of Elections determined that there were a sufficient number of signatures on August 7, 2001. Legal review was received from the Department of Law on August 31, 2001. The application was certified by the Lt. Governor on September 4, 2001. The petition was filed on January 11, 2002. Lieutenant Governor Ulmer certified the petition for this initiative as properly filed on March 12, 2002. The initiative will appear on the 2002 general election ballot (AS 15.45.150).

Following is the petition booklets' summary language:

Initiative on Gas Pipeline Development Authority

This bill would create the Alaska Natural Gas Development Authority (Authority) as a public corporation of the State. The Authority would acquire and condition North Slope natural gas, and construct a pipeline to transport the gas. The Authority's powers would include buying property or taking it by eminent domain, and to issue state tax-exempt revenue bonds. The gasline route would be from Prudhoe Bay to tidewater on Prince William Sound and the spur line from Glennallen to the Southcentral gas distribution grid. The Authority would operate and maintain the gas pipeline, ship the gas, and market the gas.



Alaska Division of Elections

INITIATIVE PETITION BILL LANGUAGE by Petition Sponsors

Petition ID: 01GSLN

The All-Alaskan Gasline Initiative:

An Act establishing the Alaska Natural Gas Development Authority,
to maximize revenues for Alaska and jobs and gas for Alaskans

Posted 9/20/01

Proposed Bill:

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

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

FINDINGS AND INTENT. (a) The people find that

1. The Phillips-Marathon liquefaction facility at Nikiski has been supplying Cook Inlet natural gas to Japan and Southcentral Alaska at great profit and without interruption since 1969;
2. Cook Inlet gas supplies are dwindling rapidly with shortfalls anticipated as early as the winter of 2003;
3. Alaska's North Slope contains vast proven reserves of natural gas that have been known for at least 25 years but have never been developed;
4. these gas resources have never been offered for sale, because there has been no way to transport them to market;
5. multiple markets in North America and Asia have recently expressed an interest in receiving a proposal from Alaska for the purchase of Alaska gas;
6. if developed, these natural gas resources could represent substantial economic benefits to Alaskans in jobs, state revenue, and gas for Alaska citizens and businesses;
7. the major North slope leaseholders have competing gas reserves in other parts of the world vying for the same markets, creating a conflict of interest for them in advancing the sales of Alaska gas;
8. the North slope Producers agreed in 1991 to strand North Slope gas until at least 2005;
9. given the producer's conflicts of interest and their historic refusal to make North Slope natural gas available it may be necessary to take the gas back;
10. the permits necessary for an Alaskan gasline project have been pledged to the Alaska Natural Gas Development Authority, operating as a port authority, to facilitate the development of the project;

11. there is sufficient gas for an all-Alaskan gasline project;
12. the Alaska Natural Gas Development Authority offers substantial tax benefits that improve the economics of a gasline project;
13. state ownership of the pipeline and associated facilities has the potential to provide substantial revenues to the state and the Alaska Permanent Fund; and
14. Alaska's constitution requires that Alaska's resources are developed, utilized, and conserved for the maximum benefit of Alaska's people.
15. an all-Alaska gasline maximizes jobs for Alaskans, revenues for the Alaskan treasury, and access to gas for Alaskans.

(b) It is the intent of this Act to create the All-Alaskan Natural Gas Development Authority for the purpose of developing, constructing, managing, and operating a gas pipeline from the North Slope of Alaska and a spur line to the Southcentral Alaska natural gas distribution grid.

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

**Chapter 41. Alaskan Natural Gas Development Authority.
Article 1. Establishment of the Authority.**

Sec. 41.41.010 Establishment of the authority. (a) There is established the Alaska Natural Gas Development Authority, the purpose of which is to provide one or more of the following services and functions in order to bring natural gas from the North Slope to market, including

1. the acquisition and conditioning of North Slope natural gas;
2. the design and construction of the pipeline system;
3. the operation and maintenance of the pipeline system;
4. the design, construction, operation, of other facilities necessary for delivering the gas to market and to Southcentral Alaska; and
5. the acquisition of natural gas market share sufficient to ensure the long-term feasibility of the pipeline system project.

(b) The authority is a public corporation and an instrumentality of the state within the Department of Revenue.

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

(d) The acquisition of natural gas from the North Slope and its delivery to tidewater for shipment to market by the authority is an essential government function of the state.

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

Sec. 41.41.020. Authority governing body. (a) The authority shall be governed by a board of directors consisting of seven members from the general public appointed by the Governor and confirmed by the legislature.

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

Sec. 41.41.030. Term of office. (a) The members of the board shall be appointed for terms of three years, and they may be reappointed.

(b) The terms of the members shall be staggered.

Sec. 41.41.040. Removal and vacancies. (a) The governor may remove a member of the board from office. A removal must be in writing and must state the reason for the removal. A member who is removed may not participate in board business and may not be counted for purposes of establishing a quorum after the member serves written notice of removal. A member who is removed is not entitled to honoraria, per diem, or travel expenses authorized under AS 41.41.060 for work performed after the member receives the written notice of removal.

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

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

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

Sec. 41.41.060. Compensation of board members; per diem and travel expenses. Members of the board are entitled to per diem and travel expenses authorized for boards and commissions under AS 39.20.180.

Sec. 41.41.070. Authority staff. (a) The board may employ and determine the salary of a chief executive officer.

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

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

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

Sec. 41.41.080. Legal counsel. The attorney general

1. is the legal counsel for the authority;
2. shall advise the authority in legal matters; and
3. shall represent the authority in legal actions.

Sec. 41.41.090. Conflicts of interest. (a) Members of the board and the chief executive officer of the authority are subject to the provisions of AS 39.50.

(b) If a member of the board or an employee of the authority acquires, owns, or controls an interest,

direct or indirect, in an entity or project in which assets of the authority are invested, the member shall immediately disclose the interest to the board. The disclosure is a matter of public record and shall be included in the minutes of the first board meeting following the disclosure.

Sec. 41.41.100. Budget. The revenue earned by operations of the authority must be identified as the source of the operating budget of the authority in the state's operating budget under AS 37.07 (Executive Budget Act).

Sec. 41.41.110 Audits. The Legislative Budget and Audit Committee may provide for an annual post audit and annual operational and performance evaluations of the authority's operations and budget.

Sec. 41.41.120. Reports and publications. (a) By September 30 of each year, the board shall publish a report of the authority for distribution to the governor and the public. The board shall notify the legislature that the report is available.

(b) The report must include financial statements audited by independent outside auditors and a statement of the amount of money received by the authority from its operations during the period covered.

Sec. 41.41.130. Tax exemption. The security instruments issued by the authority, the transfer of the security instruments, and the income on the security instruments are exempt from all taxes and assessments in the state.

Sec. 41.41.140 Political activities. The resources of the authority may not be used to finance or influence political activities.

Sec 41.41.150. Public access to information. (a) Information in the possession of the authority is a public record, except that information that discloses the particulars of the business or affairs of a private enterprise or investor is confidential and is not a public record for purposes of AS 40.25.110 - 40.25.140. Confidential information may be disclosed only for the purposes of an official law enforcement investigation or when its production is required in a court proceeding.

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

Article 2. Powers of the Authority.

Sec. 41.41.200 Powers of the authority. In furtherance of its corporate purposes, in addition to its other powers, the authority may

1. sue and be sued;
2. adopt a seal;
3. adopt, amend, and repeal bylaws and regulations;
4. make and execute contracts and other instruments;
5. in its own name acquire property, lease, rent, convey, or acquire real and personal property; a project site or part of a project site may be acquired by eminent domain;
6. acquire natural gas supplies;
7. issue bonds and otherwise incur indebtedness in accordance with AS 41.41.300 - 41.41.410 in order to pay the cost of a project;

8. accept gifts, grants, or loans from and enter into contracts or other transactions regarding gifts, grants, or loans with a federal agency or an agency or instrumentality of the state, a municipality, private organization, or other source;
9. enter into contracts or agreements with a federal agency, agency or instrumentality of the state, municipality, or public or private individual or entity, with respect to the exercise of its powers;
10. charge fees or other forms of remuneration for the use of authority properties and facilities;
11. defend and indemnify a current or former member of the board or an employee or agent of the authority against the costs, expenses, judgments, and liabilities as a result of actions taken in good faith on behalf of the authority; and
12. purchase insurance to protect its assets, services, and employees against liabilities that may arise from authority operations and activities.

Article 3. Revenue Bonds and Notes.

Sec. 41.41.300. Bonds and notes of the authority. (a) The authority, by resolution, may issue revenue bonds and bond anticipation notes in order to provide funds to carry out the purposes set out in AS 41.41.010(a)

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

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

(d) Bonds or bond anticipation notes of the authority may be issued in one or more series and shall be dated, bear interest at the rate or rates per year or within the maximum rate, be in the denomination, be in the form, either coupon or registered, carry the conversion or registration provisions, have the rank or priority, be executed in the manner and form, be payable at the times, from the sources, and in the medium of payment and place or places within or outside the state, be subject to authentication by a trustee or fiscal agent, and be subject to the terms of redemption with or without premium, as the resolution or the authority may provide. Bond anticipation notes shall mature at the time or times that are determined by the authority. Bonds shall mature at a time not exceeding a number of years from their date that is determined by the authority. Before the preparation of definitive bonds or bond anticipation notes, the authority may issue interim receipts or temporary bonds or bond anticipation notes, with or without coupons, exchangeable for bonds or bond anticipation notes when these definitive bonds or bond anticipation notes have been executed and are available for delivery.

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

(f) If an officer whose signature or a facsimile of whose signature appears in a bond, note, or coupon attached to them ceases to be an officer before the delivery of the bond, note, or coupon, the signature or facsimile is valid to the same extent as if the officer had remained in office until delivery.

Sec. 41.41.310. Covenants. In a resolution of the authority authorizing or relating to the issuance of bonds or bond anticipation notes, the authority has power by provisions in the resolution what will

constitute covenants of the authority and contracts with the holders of the bonds or bond anticipation notes to

1. pledge to a payment or purpose all or a part of its revenues to which its right then exists or may thereafter come into existence, and the money derived from the revenues, and the proceeds of bonds or notes;
2. covenant as to the use and disposition of payments of principal or interest received by the authority on loans or other investments held by the authority;
3. covenant as to establishment of reserves or sinking funds and the making of provision for and the regulation and disposition of the reserves or sinking funds;
4. covenant with respect to or against limitations on a right to sell or otherwise dispose of property of any kind;
5. covenant as to bonds and notes to be issued, and their limitations, terms, and conditions, and as to the custody, application, and disposition of the proceeds of the bonds and notes;
6. covenant as to the issuance of additional bonds or notes, or as to limitations on the issuance of additional bonds or notes and the incurring of other debts;
7. covenant as to the payment of the principal of or interest on the bonds or notes, as to the sources and methods of the payment, as to the rank or priority of the bonds or notes with respect to a lien or security, or as to the acceleration of the maturity of the bonds or notes;
8. for the replacement of lost, stolen, destroyed, or mutilated bonds or notes;
9. covenant as to the redemption of bonds or notes and privileges of their exchange for other bonds or notes of the authority;
10. covenant to create or authorize the creation of special funds of money to be held in pledge or otherwise for operation expenses, payment or redemption of bonds or notes, reserves, or other purposes;
11. establish the procedure, if any, by which the terms of a contract or covenant with or for the benefit of the holders of bonds or notes may be amended or abrogated, the amount of bonds or notes the holders of which must consent to amendment or abrogation, and the manner in which the consent may be given;
12. covenant as to the custody of property or investments, their safekeeping and insurance, and the use and disposition of insurance money;
13. agree with a corporate trustee that may be a trust company or bank having the powers of a trust company within or outside the state as to the pledging or assigning of revenue or funds to which or in which the authority has rights or an interest; the agreement may further provide for other rights and remedies exercisable by the trustee as may be proper for the protection of the holders of a bond or note of the authority and not otherwise in violation of law and may provide for the restriction of the rights of an individual holder of bonds or notes of the authority;
14. appoint and provide for the duties and obligations of a paying agent or paying agents or other fiduciaries as the resolution may provide within or outside the state;
15. limit the rights of the holders of a bond or note to enforce a pledge or covenant securing the bonds or notes;
16. make covenants other than and in addition to the covenants expressly authorized in this section of like or different character, and to make covenants to do or refrain from doing acts and things as may be necessary or convenient and desirable in order to better secure bonds or notes or that, in the absolute discretion of the authority, will tend to make bonds or notes more marketable, notwithstanding that the covenants, acts, or things may not be enumerated in this section.

Sec. 41.41.320 Limitations of issuance of bonds. (a) The authority may not issue bonds in an amount that exceeds the amount of bonds authorized to be issued by the legislature.

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

Sec. 41.41.330. Independent financial advisor. In negotiating the private sale of bonds or bond anticipation notes to an underwriter, the authority may retain a financial advisor. A financial advisor retained under this section must be independent from the underwriter.

Sec. 41.41.340 Validity of pledge. (a) The pledge of assets or revenue of the authority to the payment of the principal or interest on an obligation of the authority is valid and binding from the time the pledge is made, and the assets or revenue become immediately subject to the lien of the pledge without physical delivery or further act. The lien of a pledge is valid and binding against all parties having claims in tort, contract, or otherwise against the authority, irrespective of whether those parties have notice of the lien of the pledge.

(b) This section does not prohibit the authority from selling assets subject to a pledge, except that a sale may be restricted by the trust agreement or resolution providing for the issuance of the obligations.

Sec. 41.41.350. Capital reserve funds. (a) For the purpose of securing one or more issues of its obligations, the authority may establish one or more special funds, called "capital reserve funds," and shall pay into those capital reserve funds (1) money appropriated and made available by the state for the purpose of those funds, (2) proceeds of the sale of its obligations, to the extent provided in the resolution or resolutions of the authority authorizing their issuance, and (3) other money that may be made available to the authority for the purpose of those funds from another source. All money held in a capital reserve fund, except as provided in this section, shall, subject to appropriation, be used as required solely for the payment of the principal of obligations or of the sinking fund payments with respect to those obligations; the purchase or redemption of obligations; the payment of interest on obligations; or the payment of a redemption premium required to be paid when those obligations are redeemed before maturity. However, money in a fund may not be withdrawn from that fund at any time in an amount that would reduce the amount of that fund to less than the capital reserve requirement set out in (b) of this section, except for the purpose of making, with respect to those obligations, payment, when due, of principal, interest, redemption premiums, and the sinking fund payments for the payment of which other money of the authority is not available. Income or interest earned by, or increment to, a capital reserve fund due to the investment of the fund or other amounts in it may be transferred by the authority to other funds or accounts of the authority to the extent that the transfer does not reduce the amount of the capital reserve fund below the capital reserve fund requirement.

(b) If the authority decides to issue obligations secured by a capital reserve fund, the obligations may not be issued if the amount in the capital reserve fund is less than a percent, not exceeding 10 percent, of the principal amount of all of those obligations secured by that capital reserve fund then to be issued and then outstanding in accordance with their terms, as may be established by resolution of the authority, called the "capital reserve fund requirement," unless the authority, at the time of issuance of the obligations, deposits in the capital reserve fund from the proceeds of the obligations to be issued or from other sources an amount that, together with the amount then in the fund, will not be less than the capital reserve fund requirement.

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

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

(e) The chair of the authority shall annually, not later than January 2, make and deliver to the governor and chairs of the house and senate finance committees a certificate stating the sum, if any required to restore a capital reserve fund to the capital reserve fund requirement. The legislature may appropriate that sum, and all sums appropriated during the current fiscal year by the legislature for the restoration shall be deposited by the authority in the appropriate capital reserve fund.

(f) This section does not create a debt or liability of the state.

Sec. 41.41.360 Remedies. A holder of obligations or coupons attached to them issued under the provisions of this chapter, and a trustee under a trust agreement or resolution authorizing the issuance of the obligations, except as restricted by a trust agreement or resolution, either at law or in equity, may enforce all rights granted hereunder or under the trust agreement or resolution, or under another contract executed by the authority under this chapter, and may enforce and compel the performance of all duties required by this chapter or by the trust agreement or resolution to be performed by the authority or by an officer of it.

Sec. 41.41.370 Negotiable instruments. All obligations and interest coupons attached to them are negotiable instruments under the laws of this state, subject only to applicable provisions for registration.

Sec. 41.41.380 Obligations eligible for investment. Obligations issued under the provisions of this chapter are securities in which all public officers and public bodies of the state and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees, and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. These obligations may be deposited with a state or municipal officer of an agency or political subdivision of the state for a purpose for which the deposit of bonds, notes or obligations of the state is authorized by law.

Sec. 41.41.390 Refunding bonds. (a) The authority may provide for the issuance of refunding bonds for the purpose of refunding an obligation then outstanding that has been issued under the provisions of this chapter, including the payment of redemption premium on them and interest accrued or to accrue to the date of redemption of the obligations. The issuance of the bonds, the maturities and other details of them, the rights of the holders of them, and rights, duties, and obligations of the authority in respect of them are governed by the provisions of the is chapter that relate to the issuance of obligations insofar as those provisions may be appropriate.

(b) Refunding bonds may be sold or exchanged for outstanding bonds issued under this chapter, and, if sold, the proceeds may be applied, subject to appropriation and in addition to another authorized purpose, to the purchase, redemption, or payment of he outstanding obligations. Pending the application

of the proceeds of refunding bonds, with any other available funds, to the payment of the principal, accrued interest, and redemption premium on the obligations, being refunded, and if so provided or permitted in the resolution authorizing the issuance of the refunding bonds or in the trust agreement securing them, to the payment of any interest on the refunding bonds and expenses in connection with the refunding, the proceeds may be invested in direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States that mature or that will be subject to redemption, at the option of the holders of them, not later than the respective dates when the proceeds, together with the interest accruing on them, will be required for the purposes intended.

Sec. 41.41.400. Credit of state not pledged. (a) Obligations issued under the provisions of this chapter do not constitute a debt, liability, or obligation of the state or of a political subdivision of the state or a pledge of the faith and credit of the state or of a political subdivision of the state but are payable solely from the revenue or assets of the authority. Each obligation issued under this chapter must contain on its face a statement that the authority is not obligated to pay it or the interest on it except from the revenue or assets of the authority and that neither the faith and credit nor the taxing power of the state or of a political subdivision of the state is pledged to the payment of the principal of or the interest on the obligation.

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

Sec. 41.41.410. Credit of state not pledged. A member or other officer of the authority is not subject to personal liability or accountability by reason of having executed or issued an obligation.

Article 4. Property of the Authority.

Sec. 41.41.450. Property of the authority. The authority may acquire, by purchase, lease, or gift, upon terms that it considers proper, land, structures, real or personal property rights, rights-of-way, franchises, easements, and other interests in land it considers necessary or convenient for the financing of the project or a part of the project.

Article 5. Project Construction.

Sec. 41.41.500. Contract terms relating to use of Alaska resources. (a) The authority shall enter into one or more prehire project term agreements with labor organizations that (1) contain no-strike clauses; and (2) secure timely completion of the project and maximum employment opportunities for state residents.

(b) To maximize the economic benefits of the project to Alaskan businesses, the authority shall use Alaska contractors and suppliers to the maximum extent possible to take advantage of the Alaska experience in Arctic engineering and construction.

Article 6. General Provisions.

Sec. 41.41.900. Tax exemption. All obligations issued under this chapter are declared to be issued by a body corporate and public of the state and for an essential public and governmental purpose, and the obligations, and the interest and income on and from the obligations, and all fees, charges, funds, revenues, income, and other money pledged or available to pay or secure the payment of the obligations, or interest on the obligation, are exempt from state taxation except for transfer, inheritance, and

estate taxes.

Sec. 41.41.990. Definitions. In this chapter,

1. "authority" means the Alaska Natural Gas Development Authority;
2. "board" means the board of directors of the Alaska Natural Gas Development Authority;
3. "project" means the gas transmission pipeline, together with all related property and facilities, to extend from the Prudhoe Bay area on the North Slope of Alaska to tidewater at a point on Prince William Sound and the spur line from Glennallen to the Southcentral gas distribution grid, and includes planning, design, and construction of the pipeline and facilities as described in AS 41.41.010(a)(1) - (5).

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

(G) Alaska Natural Gas Development Authority;

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

(57) the board of directors and chief executive officer of the Alaska Natural Gas Development Authority (AS 41.41.020).

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

DEVELOPMENT OF PROJECT PLAN. Not later than one year after the first meeting of the board of directors of the Alaska Natural Gas Development Authority, the board shall produce a development plan. The development plan must include

1. estimates of construction costs and timelines;
2. gas procurement prices;
3. use of the state's royalty gas;
4. estimates of revenue to the general fund and the Alaska permanent fund;
5. a revenue sharing plan with municipal governments;
6. a plan for delivery and pricing of natural gas to communities along the pipeline route and to Southcentral Alaska through a spur line;
7. a plan for delivery and pricing of LNG to Yukon River and coastal communities;
8. a payment schedule to companies providing permits or other valuable assets;
9. a marketing plan to approach potential buyers;
10. a plan to maximize Alaskan hire, including project labor agreements; and
11. a plan to ensure meeting the highest environmental and safety standards, including a citizens advisory council.
12. The goal of the authority is to have the Alaskan gas line in full production by 2007.

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

INITIAL APPOINTMENTS OF MEMBERS OF ALASKA NATURAL GAS DEVELOPMENT AUTHORITY BOARD OF DIRECTORS. Of the members first appointed under AS 41.41.020(a), enacted by sec. 2 of this Act,

1. three members shall be appointed to three-year terms;

2. two members shall be appointed to two-year terms; and
 3. two members shall be appointed to one-year terms.
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Testimony of Dave Dengel

Given to the House Oil and Gas Committee

March 14, 2002

Thank you Mr. Chairman and members of the committee. My name is Dave Dengel and I am the City Manager for the City of Valdez and the Executive Director for the Alaska Gasline Port Authority.

As many of you know, the City of Valdez along with the Fairbanks North Star Borough and the North Slope Borough have formed the Alaska Gasline Port Authority in the fall of 1999. The mission of the Port Authority is to develop North Slope gas to the maximum benefit of Alaskans. The Port Authority's mission is very much like that as identified in HB 410 and the initiative sponsored by the Citizens Initiative for the All-Alaska Gasline.

Since the fall of 1999 when the Alaska Gasline Port Authority was approved by the voters of Valdez, Fairbanks and the North Slope over \$6 million has been expended by Bechtel, Taylor- DeJongh and O'Melveny & Myers to develop a cost estimate and an economic model for the development of North Slope natural gas. The economic model that has been developed by the Port Authority shows that the Alaska Gasline Port Authority is

economic. The model shows that between \$500 and \$750 million will be available to the State annually through the Port Authority concept.

The Port Authority economic model shows that a publicly owned project is economic and will provide a substantial return to the state and the municipalities. The Port Authority model shows that using the Port Authority concept, the project can be 100% debt financed.

The City of Valdez has worked with Mr. Heyworth and the Citizens Initiative for the All-Alaska Gasline. We support his efforts. He along with members of the legislature have brought to the forefront the development of our natural gas resources. Valdez and the Port Authority have a very good working relationship with the Yukon Pacific Corporation. YPC brings the permits and there economic model, the Port Authority brings the economic model and concept and the Initiative effort and the legislature bring the political will to do the right thing in developing our natural gas.

Valdez is supportive of a project that takes North Slope gas to tidewater and manufactured into LNG and transported to markets. Be those markets be the Pacific Rim countries or the west coast of the United States.

The City of Valdez supports HF 410 and the initiative. Because of the work that has been completed to date by the Port Authority, Valdez would like to offer that the proposed legislation be amended slightly to incorporate the work of the Alaska Gasline Port Authority. Valdez is committed to working with the Port Authority to expand the Board of Directors so that it has a more statewide makeup. We propose that the existing 9 member Port Authority board of directors be included along with a member appointed by the Governor, a member appointed by the Senate President, a member appointed by the Speaker of the House, a member appointed by the Municipality of Anchorage, a member appointed by the City and Borough of Juneau and a member appointed by the Southwest Alaska Municipal Conference. The make up of this board would then have a statewide interest. These board members could then be removed by their respective appointing entities.

By using the work that has been accomplished by the Port Authority and Yukon Pacific and the Citizens Initiative and others, we can continue to move forward with this project.

Mr. Chairman, I applaud you and the other legislators, Senator Taylor and Representative Whittaker who have introduced legislation to form a