

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3101 SCOMM 143: SENATE SPEC.COMM.ON NATURAL GAS DEV. 2005-2006



GREENGATE

Sensitivity Case: Point Thomson Only

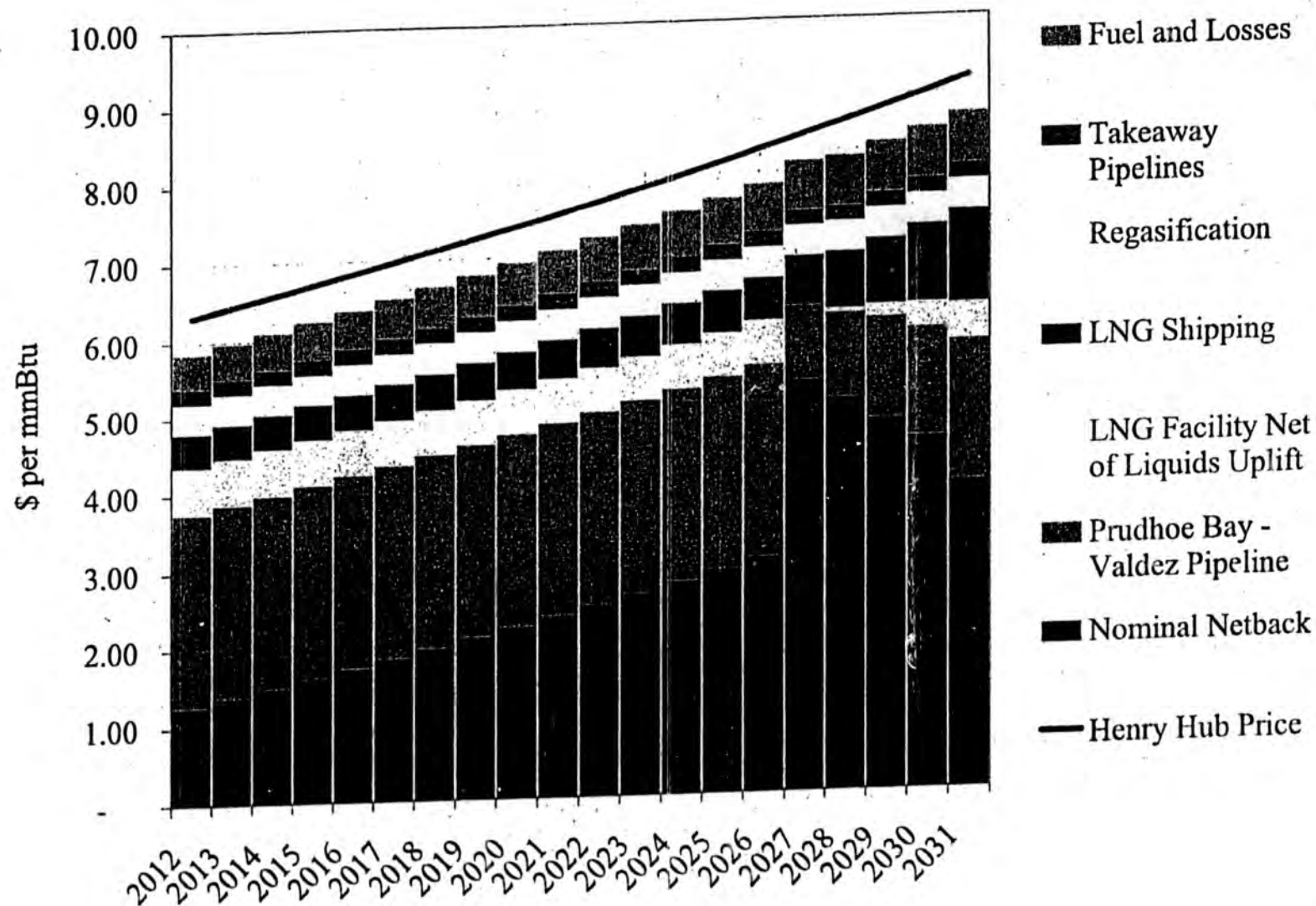


Scenario Description

- Only PTU is made available to supply project
- Case is analogous to LNG stand-alone project, but with slightly lower volume and shorter project life
- Does not take into account economics of liquids/condensates from PTU
- Assumed that production is curtailed when wellhead netback becomes negative due to production decline
- Without counting the value of the diversion option, negative wellhead netback occurs after 22 years of production
- Midstream capital is assumed to be repaid in 15 years, when production decline sets in, with about 20% of PTU remaining



PTU Only: Nominal Netback Price at Pipeline Inlet (No Option)

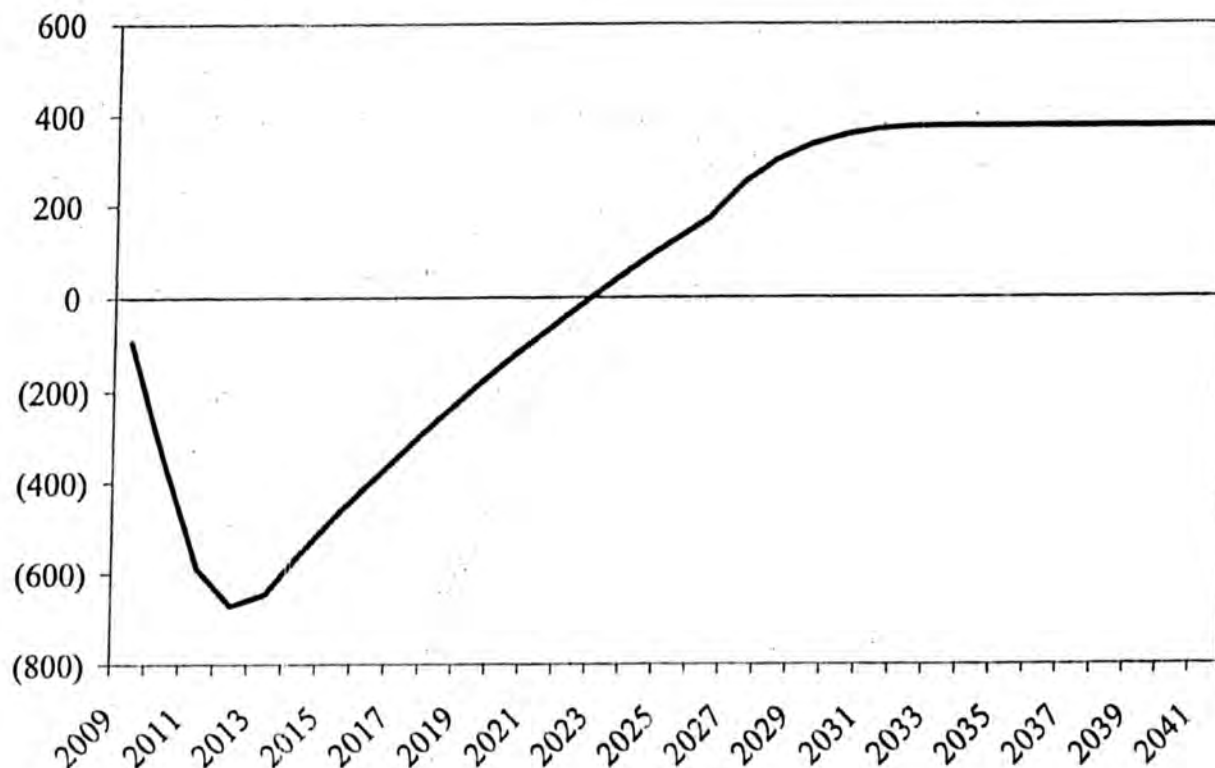


PTU Case: Base Case Producer Returns (No Diversion Option Value)

- Upstream Producer returns at the Base Case Henry Hub price of \$5.50/mmBtu
 - NPV @ 12% discount rate: \$375 million
 - IRR: 17.1%

Producer Upstream NPV@12

- Discounted payback is achieved – after 12 years of operations





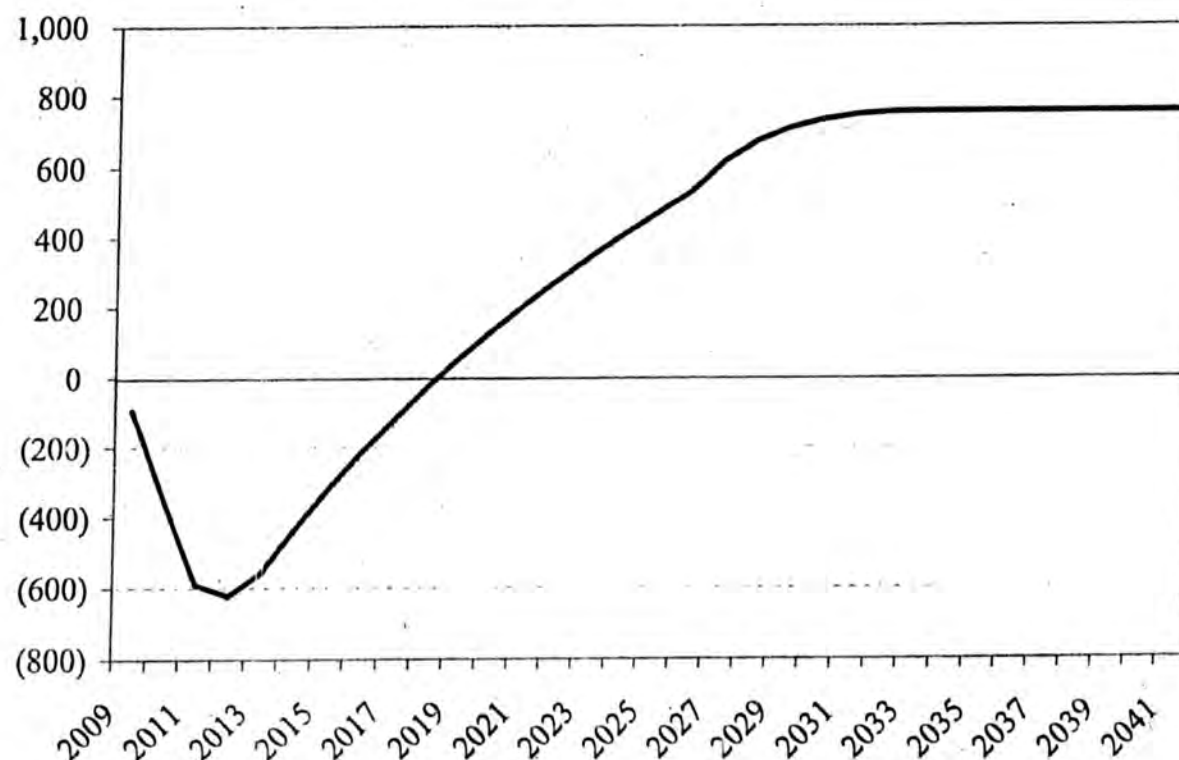
PTU Case: Sensitivity of Producer Returns (No Diversion Option Value)

- Producer upstream returns at the high price scenario (\$7.70/mmBtu Henry Hub and \$70/bbl WTI):
 - NPV @ 12% discount rate: \$2.7 billion
 - IRR: 46.8%
- The breakeven Henry Hub price (at which the Producer IRR equals 12%) is \$5.26/mmBtu

PTU Case: Base Case Producer Returns (With Option Value)

- Upstream Producer returns at the Base Case Henry Hub price of \$5.50/mmBtu
 - NPV @ 12% discount rate: \$753 million
 - IRR: 22.4%

Producer Upstream NPV@12



- Discounted payback is achieved – after 8 years of operations

PTU Case: Sensitivity of Producer Returns (With Option Value)

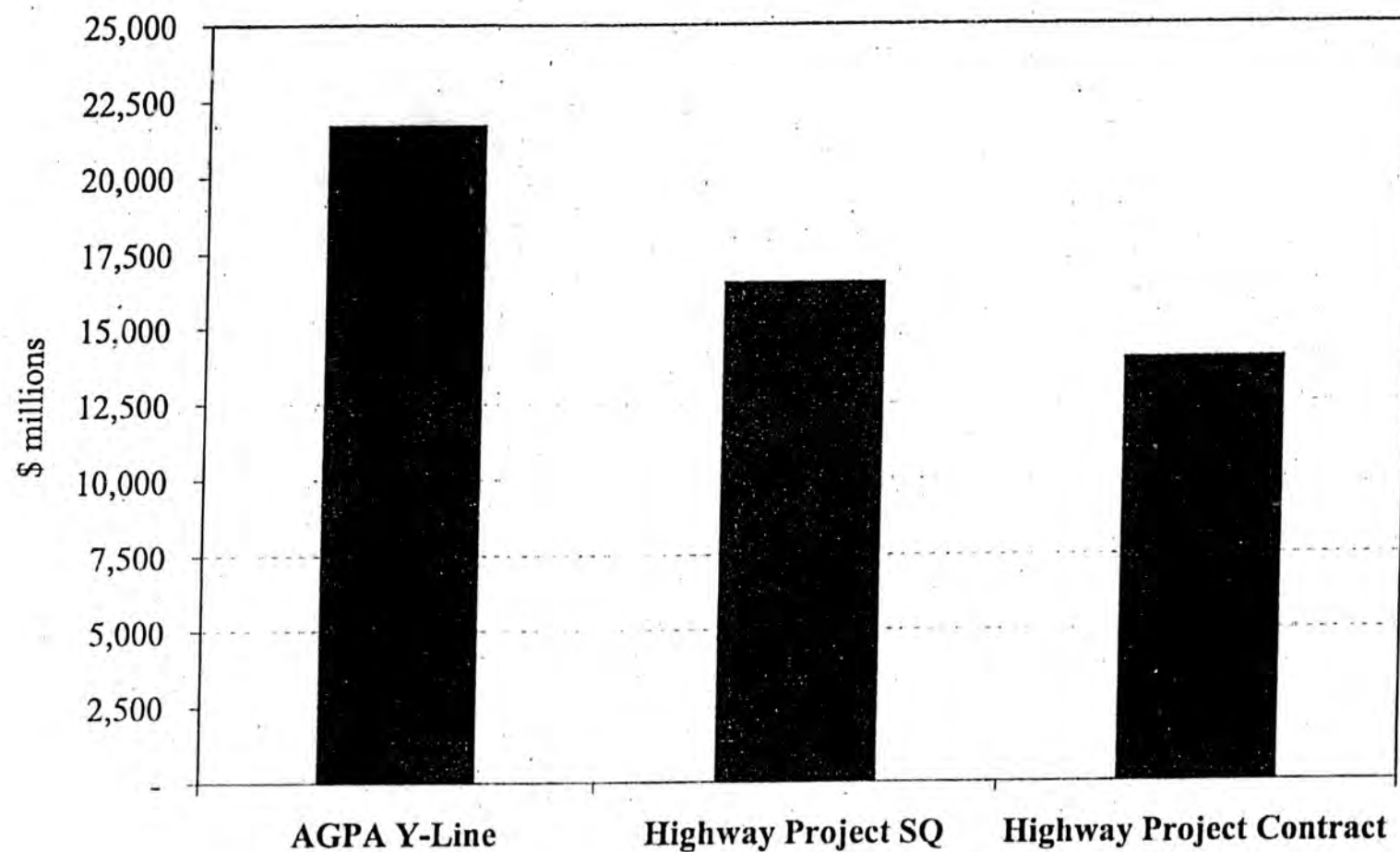
- Producer upstream returns at the high price scenario (\$7.70/mmBtu Henry Hub and \$70/bbl WTI):
 - NPV @ 12% discount rate: \$2.8 billion
 - IRR: 47.5%
- The breakeven Henry Hub price (at which the Producer IRR equals 12%) is \$4.67/mmBtu
- The sensitivity results above understates the true economics of the PTU-only case because:
 - condensates and NGL are excluded
 - midstream capital cost is not optimized for reduced volume
 - LNG vessel fleet is not optimized for reduced volume



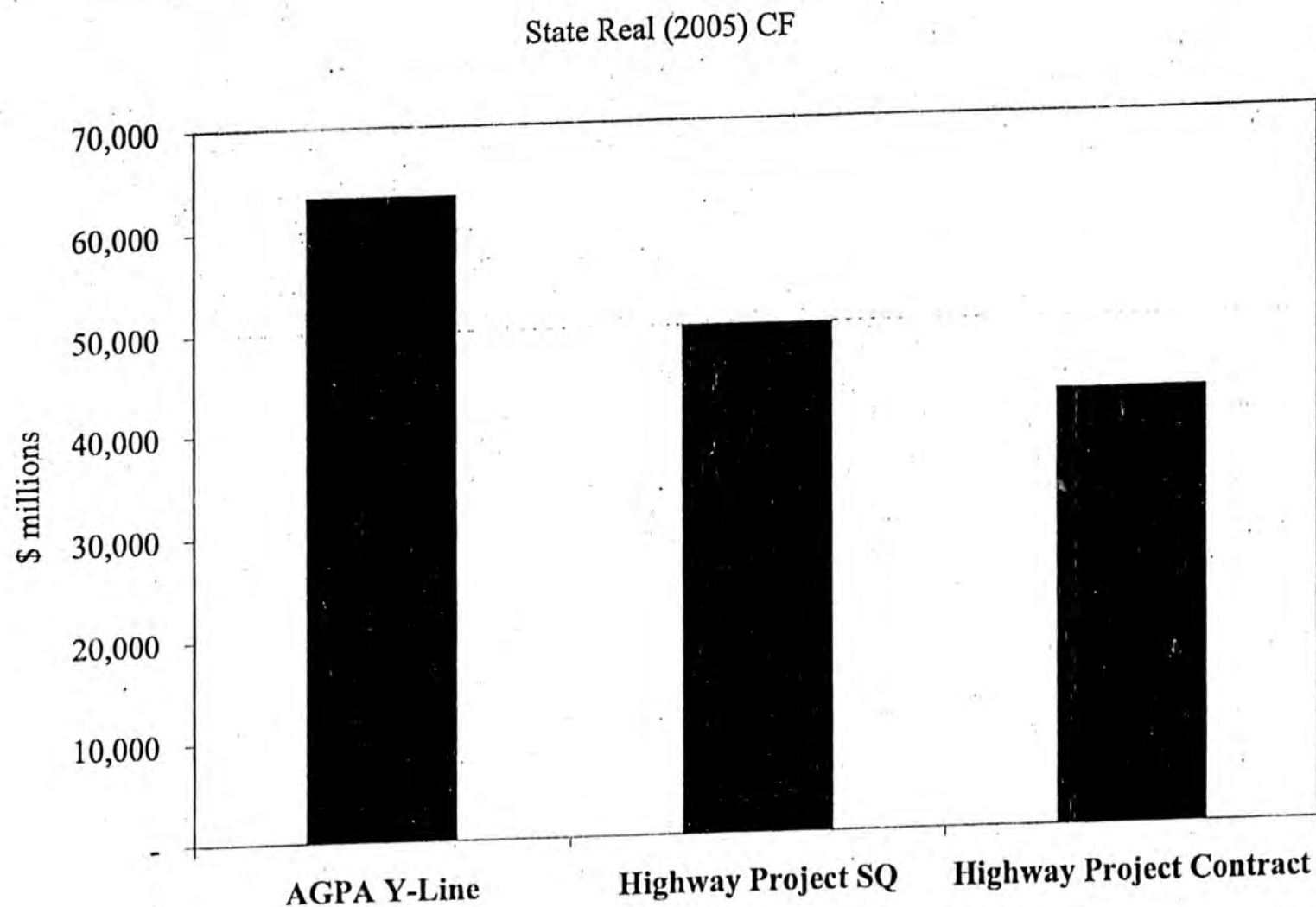
Comparison of State Revenues

Comparison of State NPV

State NPV@7%



Comparison of State Real Cash Flows (2005 dollars)





GREENGATE

Conclusions / Questions

SCOMM

143:2

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May 31, 2006

The Honorable Ben Stevens
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

*SB 2003
did not pass
out of comte.
36*

Dear President Stevens:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that would establish the Alaska Natural Gas Pipeline Corporation (Alaska Pipe) to finance, own, and manage an interest in the Alaska North Slope natural gas pipeline project (project) on behalf of the state.

Under the proposed Alaska Stranded Gas Fiscal Contract developed in accordance with the Alaska Stranded Gas Development Act (SGDA) (AS 43.82), the state proposes to acquire a 20 percent equity interest in the project with the remainder financed by affiliates of ExxonMobil Alaska, Incorporated, ConocoPhillips Alaska, Incorporated, and BP Exploration Alaska, Incorporated, the qualified sponsors of the project. The project would include a number of segments, including a large diameter pipeline from the Alaska North Slope to Alberta, Canada (with the possibility of an extension to the Lower 48), a gas treatment plant, and various gas transmission lines. The state and the qualified sponsors or their affiliates would establish limited liability companies (LLCs) or other appropriate entities to own each of the various segments of the project. Alaska Pipe would finance, own, and manage a proportionate membership interest in these owner entities.

Section 1 of the bill proposes that the Legislature make various findings that describe the critical importance of this project to the people of this state and to the nation, that explain why it is in the state's interest to participate in the project as an equity owner, and that identify the benefits that would accrue to the state from the successful development of the state's enormous gas resources. These latter benefits include increases in tax and royalty revenue, stimulation of oil and gas exploration on the Alaska North Slope, and creation of jobs and opportunities for greater in-state access to natural gas. It is hoped that these benefits will provide a sound basis for long-term growth of the state's economy.

COMMITTEE COPY

Section 2 of the bill adds a new chapter to AS 41 that establishes Alaska Pipe as a "public corporation and instrumentality of the State of Alaska" within the Department of Revenue (AS 41.42). The corporation is structured to operate as an entity that is exempt from federal income taxation. AS 41.42 states the purposes and powers of the corporation, and otherwise provides terms that govern the administration of Alaska Pipe. Many of these provisions are similar to those of Alaska's other public corporations, including the Alaska Permanent Fund Corporation and the Alaska Railroad Corporation. However, other provisions are tailored to the unique role Alaska Pipe is expected to play in facilitating this truly historic project.

The board of Alaska Pipe will be comprised of the commissioner of the Department of Revenue and the commissioner of the Department of Transportation and Public Facilities, as well as five public members. AS 41.42.020(a). The public members must have experience and recognized competence in either finance, investments, business management, or the oil or gas industries. AS 41.42.020(a). Public members would serve six-year terms and may only be removed for cause. AS 41.42.020(c); AS 41.42.045. This combination of required expertise, extended terms, and restrictions on removal are intended to help assure that Alaska Pipe is well managed and can effectively represent the state's interest in the complex commercial environment in which it will have to operate.

AS 41.42.210 provides Alaska Pipe with a broad spectrum of corporate powers that are necessary, or may be necessary, to carry out its mission. The corporation is authorized to finance and acquire an ownership interest in the project in the United States or Canada, to issue bonds, to borrow money, and to negotiate with the United States government to secure federal loan guarantees, if appropriate. The corporation is authorized to pledge its revenue and assets to secure the payment of bonds or other obligations, and to enter into agreements necessary to establish entities, *e.g.*, LLCs, that will own portions of the project.

AS 41.42.220 would authorize Alaska Pipe to incorporate subsidiaries to carry out the purposes of AS 41.42. These entities would likely be for-profit corporations organized under the law of Alaska or of another state, or under the applicable laws of Canada. At this time, it is contemplated that at least one Canadian corporation would be established to hold Alaska Pipe's interest in a Canadian limited liability partnership that would build and own the Canadian segment of the mainline. If authorized by Alaska Pipe, these subsidiaries

The Honorable Ben Stevens
May 31, 2006
Page 3

would also be able to borrow money for the project or for their operations to the same extent as any other private corporation.

The state's total equity contribution to the different project LLCs is estimated to be \$1.0 billion at this time. The state currently plans to finance this amount with a combination of appropriations directly or indirectly to Alaska Pipe, and the issuance of revenue bonds by Alaska Pipe. Article 3 of AS 41.42 contains revenue bonding authority that is fairly typical of other state public corporations, *e.g.*, the Alaska Housing Finance Corporation and the Alaska Industrial Development and Export Authority. Alaska Pipe would have the authority to issue what the market refers to as "moral obligation" revenue bonds. AS 41.42.320. Such bonds are supported by the establishment of a capital reserves account, which provides an added measure of security for the debt service on the bonds. The Alaska Pipe board would annually notify the Legislature of the status of the capital reserve account. AS 41.42.320(d). If a deficiency is reported, the Legislature may appropriate money to restore the capital reserve account but it is not compelled to do so. This "moral obligation" approach can only be invoked if the corporation finds that it will enhance the marketability of the bonds.

AS 41.42.340 specifies that any bonds issued by the corporation are not the indebtedness of the state, but are solely payable from the revenue and assets of the corporation. The state does pledge to the owners of the bonds that the state will not limit or alter the rights and powers of the corporation and that it will not impair the rights and remedies of bondholders until the bonds are fully paid. AS 41.42.350.

Article 4 of AS 41.42 establishes a cash reserves fund, which initially will be made up of any appropriations made to Alaska Pipe by the Legislature. The money in the fund can be used to meet capital call requirements and otherwise guarantee or secure debt incurred by the corporation. AS 41.42.400. The article also clarifies which laws of general application to state agencies apply to this new public corporation. For example, Alaska Pipe is exempted from the State Procurement Code under AS 41.42.430, its operating budget but not its capital budget is subject to the Executive Budget Act under AS 41.42.410, and it is largely exempt from laws relating to public works, fiscal procedures, and management of public funds under AS 41.42.440.

Article 5 of AS 41.42 relates to financial statements, reporting requirements, and the applicability of the Public Records Act to the corporation. The corporation is required to provide quarterly and annual financial statements to the governor and the Legislative Budget and Audit

Committee. AS 41.42.500. The corporation can be audited by the committee. In addition to the financial information, the corporation is to prepare an annual report on the operations of the corporation. AS 41.42.510. Although the corporation is subject to the Public Records Act, AS 41.42.520 provides broad exemptions from disclosure relating to proprietary and other commercial information. These broader exemptions from public disclosure are modeled upon similar provisions in the Alaska Stranded Gas Development Act (AS 43.82). The open meetings laws of the state do not apply to the corporation. AS 41.42.530. However, the corporation is required to conduct at least one meeting a year in public. AS 41.42.030.

Section 6 of the bill would establish the Alaska natural gas pipeline construction loan fund in the Department of Revenue. This fund would consist of money appropriated to it by the Legislature. The Legislature may choose to finance all or part of Alaska Pipe's equity obligations by loans from this fund. The construction loan program would be administered by the commissioner of the Department of Revenue, who is given broad discretion to fashion appropriate terms and conditions of the loans. Specifically, depending upon the final ownership structure in Canada, our Canadian advisors have indicated that there may be tax advantages in Canada if any loans to Alaska Pipe's Canadian subsidiaries are made directly by the state and not through Alaska Pipe.

Sections 12 and 13 of the bill establish a narrow exception to the rule barring indemnification agreements covering a party's own negligence or misconduct in construction contracts and precludes any potential application of the common law doctrine barring enforcement of indemnification agreements that might serve to increase the risk of negligence by a party that owes a duty to the public. This exception would allow an entity that constructs, owns, or operates the project, or any portion of the project, to indemnify an operator and the members of a limited liability company, including Alaska Pipe, for losses caused by those parties' own negligence or misconduct. Similar indemnities are made available to affiliated entities that either lend employees to the operator to work on the project or that provide technical consulting services to the operator to facilitate the project. The primary reason for such an approach is to hold down the costs charged by the operator to the owner entity and consequently the members.

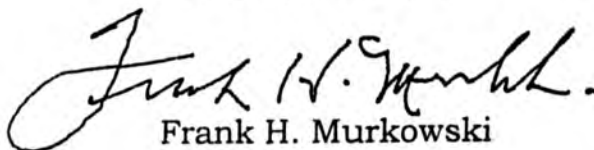
Section 7 of the bill clarifies that officers and employees of the corporation are in the exempt service. Sections 8 and 9 of the bill specify that the board members and staff of the corporation are public officials for purposes of the financial disclosure laws. Section 10 of the bill provides that board

The Honorable Ben Stevens
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Page 5

members of Alaska Pipe will be subject to the Alaska Ethics Act, except that board members of Alaska Pipe's subsidiaries are not subject to the Act unless they are also members of the board of Alaska Pipe.

I urge your support of this important legislation.

Sincerely yours, .

A handwritten signature in cursive script, reading "Frank H. Murkowski".

Frank H. Murkowski
Governor

Enclosure

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SB 2003
 (S) Publish Date: 5/31/06

Revision Date/Time (Note if correction):

Title Alaska Natural Gas Pipeline Corporation

Dept. Affected: Revenue

RDU Alaska Natural Gas Pipeline Corporati

Component Gas Pipeline

Sponsor Rules Committee

Requester Governor

Component No. 2840

Expenditures/Revenues

(Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services	2,170.2	2,257.0	2,347.3	2,441.2	2,538.8	2,640.4
Travel	175.0	178.5	182.1	185.7	189.4	193.2
Contractual	218.0	222.4	226.8	231.3	236.0	240.7
Supplies	110.0	60.0	61.2	62.4	63.7	64.9
Equipment	147.0	36.3	37.0	37.8	38.5	39.3
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	2,820.2	2,754.2	2,854.4	2,958.4	3,066.4	3,178.5

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						
Bond Proceeds						
AK Pipe Corp Receipts	2,820.2	2,754.2	2,854.4	2,958.4	3,066.4	3,178.5
TOTAL	2,820.2	2,754.2	2,854.4	2,958.4	3,066.4	3,178.5

Estimate of any current year (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: ☐

POSITIONS

Full-time	17	17	17	17	17	17
Part-time	5	5	5	5	5	5
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill creates a new public corporation in the Department of Revenue, the Alaska Natural Gas Pipeline Corporation (AK Pipe) which will finance, own and manage the state's interest in the Alaska North Slope natural gas pipeline project. This fiscal note shows the operating cost of the corporation. The cost of the state's equity ownership of the project will be financed through direct capital appropriations from the state and by revenue bonds issued by ANGPC. The funding source for AK Pipe is assumed to be from cash reserves fund and it's earnings, and any other receipts of the corporation.

Prepared by: Jerry Burnett

Division: Administrative Services

Approved: Steve Porter

Agency: Department of Revenue

Phone 465-2312

Date/Time 5/9/06 12:00 AM

Date 5/9/2006

FISCAL NOTE # 1

**STATE OF ALASKA
2006 LEGISLATIVE SESSION**

BILL NO. SB 2003

ANALYSIS CONTINUATION

The five part time employees shown in the fiscal note are the public members of the board of directors who will be compensated \$400 per day for board meetings. We estimate that they will meet at least two days per month on average and that most meetings will be held in Anchorage.

The seventeen fulltime employees consist of the following exempt employees: Alaska Natural Gas Manager, Gas Pipeline Coordinator, Petroleum Engineer, Civil Engineer, Financial Analyst, Regulations Administrator, Commercial Analyst, Local Government Specialist, Economist, Analyst/Programer, Accountant, Project Coordinator, Administrative Manager, Labor Economist, Executive Secretary, Accounting Tech and Administrative Clerk. Personal services costs are incremented by 4% per year.

Office space, supplies and equipment needs are based on locating the corporation staff in the Atwood Building. We assume that the corporation will utilize the state's network, accounting and payroll systems and thus we have allocated costs for core services.

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: 2
 Bill Version: SB 2003
 (S) Publish Date: 5/31/06

Revision Date/Time (Note if correction): _____ Dept. Affected: Natural Resources
 Title Alaska Natural Gas Pipeline Corporation RDU Resource Development
 Component Oil and Gas Development
 Sponsor Rules by Request of the Governor
 Requester Governor Component No. 439

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
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 (FY2006) cost: 0.0

Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal: ☐

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Under the proposed Alaska Stranded Gas Fiscal Contract, the state proposes to acquire a 20 percent equity interest in the gasline project with the remainder financed by ExxonMobil, ConocoPhillips, and BP Exploration. This bill would establish the Alaska Natural Gas Pipeline Corporation to finance, own, and manage the state's interests in the North Slope natural gas pipeline project. The Alaska Natural Gas Pipeline Corporation (Alaska Pipe) will be a public corporation within the Dept. of Revenue but with a legal existence independent of and separate from the state.

There is no anticipated fiscal impact to Division of Oil and Gas from implementation of this bill.

Prepared by: William Van Dyke, Acting Director Phone 269-8800
 Division Oil and Gas Date/Time 5/17/2006
 Approved by: Michael Menge, Commissioner Date 5/17/2006
 Agency Natural Resources

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

June 2, 2006

SUBJECT: Confirmation of members of the board of directors of the Alaska Natural Gas Pipeline Corporation (amendment to SB 2003, Work Order No. 24-GS2056\A.1)

TO: Senator Con Bunde
Attn: Lynne Smith

FROM: Tamara Brandt Cook
Director TBC

Here is the requested amendment making the public members of the board of directors of the Alaska Natural Gas Pipeline Corporation subject to confirmation by the legislature. The legislature has only a limited power to confirm appointees to boards or commissions under Article III, sec. 26 of the state constitution. (Bradner v. Hammond, 553 P.2d 1 (Alaska 1976) Only members of a board or commission that is at the head of a principal department or a regulatory or quasi-judicial agency are subject to confirmation. The board of directors of the Alaska Natural Gas pipeline Corporation does not fall within the types of boards for which confirmation is required, so this amendment will not be legally effective in imposing a confirmation requirement.

TBC:lmb
06-180.lmb

Enclosure

Chapter 43.82. ALASKA STRANDED GAS DEVELOPMENT ACT

Article 01. CONTRACTS FOR PAYMENTS IN LIEU OF OTHER TAXES

Sec. 43.82.010. Purpose.

The purpose of this chapter is to

(1) encourage new investment to develop the state's stranded gas resources by authorizing establishment of fiscal terms related to that new investment without significantly altering tax and royalty methodologies and rates on existing oil and gas infrastructure and production;

(2) allow the fiscal terms applicable to a qualified sponsor or the members of a qualified sponsor group, with respect to a qualified project, to be tailored to the particular economic conditions of the project and to establish those fiscal terms in advance with as much certainty as the Constitution of the State of Alaska allows; and

(3) maximize the benefit to the people of the state of the development of the state's stranded gas resources.

Sec. 43.82.020. Contracts for payments in lieu of other taxes and for royalty adjustments.

The commissioner may, under this chapter, negotiate terms for inclusion in a proposed contract with a qualified sponsor or qualified sponsor group providing for

(1) periodic payment in lieu of one or more taxes that otherwise would be imposed by the state or a municipality on the qualified sponsor or members of the qualified sponsor group as a consequence of the sponsor's or group's participation in an approved qualified project under this chapter; and

(2) certain adjustments regarding royalty under AS 43.82.220.

Article 02. QUALIFICATION AND APPLICATION PROCEDURES

Sec. 43.82.100. Qualified project.

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

(1) principally involves

(A) the transportation of natural gas by pipeline to one or more markets, together with any associated processing or treatment;

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

(C) any other technology that commercializes the shipment of natural gas within the state or from the state to one or more other states or countries;

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

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

Sec. 43.82.110. Qualified sponsor or qualified sponsor group.

The commissioner may determine that a person or group is a qualified sponsor or qualified sponsor group if the person or a member of the group

(1) intends to own an equity interest in a qualified project, intends to commit gas that it owns to a qualified project, or holds the permits that the department determines are essential to construct and operate a qualified project; and

(2) meets one or more of the following criteria:

(A) owns a working interest in at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(B) has the right to purchase at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(C) has the right to acquire, control, or market at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(D) has a net worth equal to at least 10 percent of the estimated cost of constructing a qualified project;

(E) has an unused line of credit equal to at least 15 percent of the estimated cost of constructing a qualified project.

Sec. 43.82.120. Applications.

(a) A qualified sponsor or qualified sponsor group may submit to the department an application for development of a contract under AS 43.82.020 evidencing that the requirements of AS 43.82.100 and 43.82.110 are met. The application must be submitted in the manner and form and contain the information required by the department.

(b) Along with an application submitted under (a) of this section, an applicant shall submit a proposed project plan for a qualified project that contains the following information based on the information known to the applicant at the time of application:

(1) a description of the work accomplished as of the date of the application to further the project;

(2) a schedule of proposed development activity leading to the projected commencement of commercial operations of the project;

(3) a description of the development activity proposed to be accomplished under the proposed project plan;

(4) a description of each lease or property that the applicant believes to contain the stranded gas that would be developed if the project was built;

(5) a description of the methods and terms under which the applicant is prepared to make gas available to meet the reasonably foreseeable demand in this state for gas within the economic proximity of the project during the term of the proposed contract, including proposed pipeline transportation and expansion rules if pipeline transportation is a part of the proposed project;

(6) a detailed description of options to mitigate the increased demand for public services and other negative effects caused by the project;

(7) a detailed description of options for the safe management and operation of the project once it is constructed;

(8) other information that the commissioner of revenue, in consultation with the commissioner of natural resources, considers necessary to make a determination that

(A) the work accomplished as of the date of application, the schedule of proposed development activity, and the development activity proposed to be accomplished under the proposed project plan reflect a proposal for diligent development on the part of the applicant;

(B) the proposed project plan does not materially conflict with the obligations of a lessee to the state under a lease or under a pool, unit, or other agreement with the state; and

(C) the proposed project plan describes satisfactory methods and terms for accommodating reasonably foreseeable demand for gas in this state within the economic proximity of the project during the term of the proposed contract.

(c) The requirements of (b) of this section do not diminish the obligations of a qualified sponsor or member of a qualified sponsor group to the state or restrict the authority of the commissioner of revenue or the commissioner of natural resources under any other law or agreement relating to a plan of development for a lease, pool, or unit.

Sec. 43.82.130. Qualified project plan.

A proposed project plan submitted under AS 43.82.120 may be approved as a qualified project plan under AS 43.82.140 if the proposed project plan

(1) reflects a proposal for diligent development of the project on the part of the applicant;

(2) does not materially conflict with the obligations of a lessee to the state under a lease or under a pool, unit, or other agreement with the state; and

(3) describes satisfactory methods and terms for making gas available to meet the reasonably foreseeable demand in this state for gas within the economic proximity of the project during the term of the proposed contract.

Sec. 43.82.140. Review of applications and determination of qualifications.

(a) The commissioner shall review an application submitted under AS 43.82.120 to determine whether the provisions of AS 43.82.100 concerning a qualified project and AS 43.82.110 concerning a qualified sponsor or qualified sponsor group have been met. The commissioner may approve an application only if those provisions have been met.

(b) If the commissioner approves an application under (a) of this section, the commissioner and the commissioner of natural resources shall review the proposed project plan submitted with the application to

determine whether the provisions of AS 43.82.130 have been met. The commissioner may approve the proposed project plan as a qualified project plan only if the commissioner of natural resources concurs in the approval.

(c) The commissioner shall send to the applicant written notice of and the reasons for the determinations made under (a) and (b) of this section.

Sec. 43.82.150. Actions challenging determinations on applications.

(a) Only an applicant under AS 43.82.120 who is aggrieved by a determination of the commissioner of revenue or the commissioner of natural resources under AS 43.82.140 may seek judicial review of the determination.

(b) The only grounds for judicial review of a determination made under AS 43.82.140 are

(1) failure to follow the qualification and application procedures set out in AS 43.82.100 - 43.82.180;
or

(2) abuse of discretion that is so capricious, arbitrary, or confiscatory as to constitute a denial of due process.

Sec. 43.82.160. Multiple applications for similar or competing qualified projects.

Nothing in this chapter prohibits different qualified sponsors or different qualified sponsor groups from submitting applications under AS 43.82.120 relating to similar or competing qualified projects or prohibits the commissioner of revenue or the commissioner of natural resources from reviewing and approving applications and proposed project plans under AS 43.82.140 relating to similar or competing qualified projects.

Sec. 43.82.170. Application deadline.

The commissioner of revenue or the commissioner of natural resources may not act on an application for a contract submitted under AS 43.82.120 unless the application is received by the Department of Revenue no later than March 31, 2005.

Sec. 43.82.180. Withdrawal of applications.

Subject to the terms of a reimbursement agreement under AS 43.82.240 or other agreement with the Department of Revenue, the Department of Natural Resources, the commissioner of revenue, or the commissioner of natural resources affecting the withdrawal of an application, a qualified sponsor or qualified sponsor group may withdraw an application submitted under AS 43.82.120 at any time before the date that the commissioner of revenue submits a contract to the governor under AS 43.82.430 without further obligation under this chapter.

Article 03. CONTRACT DEVELOPMENT

Sec. 43.82.200. Contract development.

If the commissioner approves an application and proposed project plan under AS 43.82.140, the commissioner may develop a contract that may include

(1) terms concerning periodic payment in lieu of one or more taxes as provided in AS 43.82.210;

- (2) terms developed under AS 43.82.220 relating to
 - (A) timing and notice of the state's right to take royalty in kind or in value; and
 - (B) royalty value;
- (3) terms regarding the hiring of Alaska residents and contracting with Alaska businesses under AS 43.82.230;
- (4) terms regarding periodic payment to, or an equity or other interest in a project for, municipalities under AS 43.82.500;
- (5) terms regarding arbitration or alternative dispute resolution procedures;
- (6) terms and conditions for administrative termination of a contract under AS 43.82.445; and
- (7) other terms or conditions that are
 - (A) necessary to further the purposes of this chapter; or
 - (B) in the best interests of the state.

Sec. 43.82.210. Contract terms relating to payment in lieu of one or more taxes.

(a) If the commissioner approves an application and proposed project plan under AS 43.82.140, the commissioner may develop proposed terms for inclusion in a contract under AS 43.82.020 for periodic payment in lieu of one or more of the following taxes that otherwise would be imposed by the state or a municipality on the qualified sponsor or member of a qualified sponsor group as a consequence of participating in an approved qualified project:

- (1) oil and gas production taxes and oil surcharges under AS 43.55;
- (2) oil and gas exploration, production, and pipeline transportation property taxes under AS 43.56;
- (3) *[Repealed, Sec. 6 ch 34 SLA 1999]*.
- (4) Alaska net income tax under AS 43.20;
- (5) municipal sales and use tax under AS 29.45.650 - 29.45.710;
- (6) municipal property tax under AS 29.45.010 - 29.45.250 or 29.45.550 - 29.45.600;
- (7) municipal special assessments under AS 29.46;
- (8) a comparable tax or levy imposed by the state or a municipality after June 18, 1998;
- (9) other state or municipal taxes or categories of taxes identified by the commissioner.

(b) If the commissioner chooses to develop proposed terms under (a) of this section, the commissioner shall, if practicable and consistent with the long-term fiscal interests of the state, develop the terms in a manner that attempts to balance the following principles:

(1) the terms should, in conjunction with other factors such as cost reduction of the project, cost overrun risk reduction of the project, increased fiscal certainty, and successful marketing, improve the competitiveness of the approved qualified project in relation to other development efforts aimed at supplying the same market;

(2) the terms should accommodate the interests of the state, affected municipalities, and the project sponsors under a wide range of economic conditions, potential project structures, and marketing arrangements;

(3) the state's and affected municipalities' combined share of the economic rent of the approved qualified project under the contract should be relatively progressive; that is, the state's and affected municipalities' combined annual share of the economic rent of the approved qualified project generally should not increase when there are decreases in project profitability, or decrease when there are increases in project profitability;

(4) the state's and affected municipalities' combined share of the economic rent of the approved qualified project under the contract should be relatively lower in the earlier years than in the later years of the approved qualified project;

(5) the terms should allow the project sponsors to retain a share of the economic rent of the approved qualified project that is sufficient to compensate the sponsors for risks under a range of economic circumstances;

(6) the terms should provide the state and affected municipalities with a significant share of the economic rent of the approved qualified project, when discounted to present value, under favorable price and cost conditions;

(7) the method for calculating the periodic payment in lieu of certain taxes under the contract should be clear and unambiguous; and

(8) while cost calculations for the approved qualified project under the contract should be based on amounts that closely approximate actual costs, agreed-upon formulas reflecting reasonable economic assumptions should be used if possible to promote administrative certainty and efficiency.

(c) Except as provided in (b) of this section, the commissioner's discretion under this section in developing proposed terms for a contract under AS 43.82.020 is not limited to consideration of the economic rent of the approved qualified project.

Sec. 43.82.220. Contract terms relating to royalty.

(a) Notwithstanding any contrary provisions of AS 38, the commissioner of natural resources, with the concurrence of the commissioner of revenue and the affected parties holding a state lease or unit agreement, may develop proposed terms for inclusion in a contract under AS 43.82.020 that modify the timing and notice provisions of the applicable oil and gas leases and unit agreements pertaining to the state's rights to receive its royalty on gas in kind or in value if

(1) the viability of the approved qualified project depends on long-term gas purchase and sale agreements;

(2) certainty over time regarding the quantity of royalty gas that the state may be taking in kind is needed to secure the long-term purchase and sale agreements;

(3) the specified period of the state's commitment to take its royalty share in value or in kind does not exceed the term of the purchase and sale agreements; and

(4) the modification does not impair the ability of the approved qualified project or the state to meet the reasonably foreseeable demand in this state for gas within economic proximity of the project during the term of the contract developed under AS 43.82.020.

(b) Notwithstanding any contrary provisions of AS 38, the commissioner of natural resources, with the concurrence of the commissioner of revenue and the affected parties holding a state lease or unit agreement, may develop proposed terms for inclusion in a contract under AS 43.82.020 that establish a valuation method for the state's royalty share of the gas production from an approved qualified project.

(c) The commissioner of revenue shall include any proposed terms relating to royalty developed in accordance with this section in the proposed contract under AS 43.82.400.

(d) Nothing in this chapter permits modification of the state's rights that relate to timing, notice, and rights to receive oil royalty in kind or in value under oil and gas leases or unit agreements.

Sec. 43.82.230. Contract terms relating to hiring of Alaska residents and contracting with Alaska businesses.

(a) The commissioner shall include in a contract under AS 43.82.020 a term requiring the qualified sponsor or qualified sponsor group and contractors of the qualified sponsor or qualified sponsor group to comply with all valid federal, state, and municipal laws relating to hiring Alaska residents and contracting with Alaska businesses to work in the state on the approved qualified project and not to discriminate against Alaska residents or Alaska businesses. Within the constraints of law, the commissioner shall also include in a contract under AS 43.82.020 a term that requires the qualified sponsor or qualified sponsor group and contractors of the qualified sponsor or qualified sponsor group to employ Alaska residents and to contract with Alaska businesses to work in the state on the approved qualified project to the extent the residents and businesses are available, competitively priced, and qualified.

(b) The commissioner shall include in a contract under AS 43.82.020 a term requiring the qualified sponsor or qualified sponsor group and contractors of the qualified sponsor or qualified sponsor group to

(1) advertise for available positions in newspapers in the location where the work is to be performed and in other publications distributed throughout the state, including in rural areas; and

(2) use Alaska job service organizations located throughout the state and not just in the location where the work is to be performed in order to notify Alaskans of work opportunities on the approved qualified project.

(c) Subject to the voluntary agreement of the qualified sponsor, the commissioner may include a term in the contract providing for incentives to encourage training and hiring of Alaska residents.

(d) This section does not create or abridge individual rights and does not create a private right of action for any person.

(c) For purposes of this section,

(1) "Alaska business" means a firm or contractor that

(A) has held an Alaska business license for the preceding 12 months;

(B) maintains, and has maintained for the preceding 12 months, a place of business in the state that competently and professionally deals in supplies, services, or construction of the nature required for the approved qualified project; and

(C) is

(i) a sole proprietorship and the proprietor is an Alaska resident;

(ii) a partnership and more than 50 percent of the partnership interest is held by Alaska residents;

(iii) a limited liability company and more than 50 percent of the membership interest is held by Alaska residents;

(iv) a corporation that has been incorporated in the state or is authorized to do business in the state; or

(v) a joint venture and a majority of the venturers qualify as Alaska businesses under this paragraph;

(2) "Alaska job service organizations" means those offices maintained by the state and recommended by the Department of Labor and Workforce Development whose functions are to aid the unemployed or underemployed in finding employment;

(3) "Alaska resident" means a natural person who

(A) receives a permanent fund dividend under AS 43.23; or

(B) is registered to vote under AS 15 and qualifies for a resident fishing, hunting, or trapping license under AS 16;

(4) "available," as applied to an Alaska resident or Alaska business, means that the resident or business is available for employment at the time required and is located anywhere in the state, not just in the area of the state where the work is to be performed;

(5) "qualified," as applied to an Alaska resident or Alaska business, means that the resident or business possesses the requisite education, training, skills, certification, or experience to perform the work necessary for a particular position or to perform a particular service.

Sec. 43.82.240. Use of an independent contractor.

(a) The commissioner may use independent contractors to assist in the evaluation of an application or in the development of contract terms under AS 43.82.200. The commissioner may condition the development of a contract under AS 43.82.020 on an agreement by the applicant to reimburse the state for the reasonable expenses of independent contractors under this section. A reimbursement of expenses that is required in an agreement authorized by this subsection may not exceed \$1,500,000 for each application.

(b) An independent contractor selected under this section must sign an agreement regarding confidentiality and disclosures consistent with the determinations made under AS 43.82.310 before the contractor may review information that is determined confidential under AS 43.82.310.

(c) Selection of an independent contractor under this section is not subject to AS 36.30 (State Procurement Code).

Sec. 43.82.250. Term of contract; effective date.

The term of a contract developed under AS 43.82.020 may be for no longer than is necessary to develop the stranded gas that is subject to the contract; however, the term of the contract may not exceed 35 years from the commencement of commercial operations of the approved qualified project.

Sec. 43.82.260. Change of parties to an application or a contract; assignment of interests.

(a) A qualified sponsor or member of a qualified sponsor group may assign an interest in or add or withdraw a party to an application under AS 43.82.120 only if the commissioner has

(1) made a finding that the assignment, addition, or withdrawal is consistent with the requirements of AS 43.82.110; and

(2) given prior written approval for the assignment, addition, or withdrawal.

(b) A contract developed under this chapter may provide for the assignment to or withdrawal of a qualified sponsor or member of a qualified sponsor group.

(c) Upon being added to an application under this section, a party becomes a qualified sponsor or a member of a qualified sponsor group, as appropriate, for the relevant project.

(d) The commissioner may not unreasonably withhold approval under (a) of this section, but may condition the approval in any way reasonably necessary to protect the fiscal interests of the state and to further the purposes of this chapter.

(e) For purposes of this section, an assignment includes a transfer of stock or a partnership interest in a manner that changes control of a qualified sponsor or member of a qualified sponsor group.

Sec. 43.82.270. Project plans and work commitments.

A contract under AS 43.82.020 must include the qualified project plan approved under AS 43.82.140 and provisions for updating the plan at reasonable intervals until the commencement of commercial operations of the approved qualified project. The commissioner of revenue, in consultation with the commissioner of natural resources, may, as a term in a contract under AS 43.82.020, include work commitments or other obligations in the contract to be accomplished before the commencement of commercial operations of the approved qualified project.

Article 04. REQUESTS FOR INFORMATION; CONFIDENTIALITY; DISCLOSURE OF INFORMATION

Sec. 43.82.300. Requests for information.

The commissioner of revenue or the commissioner of natural resources may request from an applicant information that the respective commissioner determines is necessary to perform the respective commissioner's responsibilities under AS 43.82.140. If the application is approved under AS 43.82.140, the respective commissioner shall require the successful applicant to provide financial, technical, and market information regarding the qualified project that the respective commissioner determines is necessary for the purpose of developing contract terms for the qualified project under AS 43.82.200. If requested information is not provided, the commissioner of revenue may not continue to review the application under AS 43.82.140 or develop the contract under AS 43.82.200 - 43.82.270, as applicable.

Sec. 43.82.310. Disclosure of information; confidentiality.

(a) An applicant may request confidential treatment of information that the applicant provides under AS 43.82.300 by clearly identifying the information and the reasons supporting the request for confidential treatment. The commissioner of revenue or the commissioner of natural resources, as appropriate, shall keep the information confidential until the commissioner determines whether the requirements of (b) of this section are met. If the commissioner of revenue or the commissioner of natural resources has not made a determination under (b) of this section within 14 days after receiving a request for confidential treatment, the request is considered denied. If the appropriate commissioner determines that the information does not meet the requirements of (b) of this section or if the commissioner fails to make a determination within 14 days, the commissioner shall return the information and any copies of it at the request of the applicant. If the commissioner of revenue or the commissioner of natural resources, as appropriate, returns information under this subsection, the commissioner shall cease review of the application or cease contract development under AS 43.82.200 - 43.82.270, as appropriate, unless the commissioner determines that the returned information is unnecessary to make a determination on the application or to develop contract terms under AS 43.82.200 - 43.82.270.

(b) If requested by the applicant, information provided to the commissioner of revenue or the commissioner of natural resources under AS 43.82.300 shall be kept confidential if the commissioner receiving the information determines, upon an adequate showing by the applicant, that the information

(1) is a trade secret or other proprietary research, development, or commercial information that the applicant treats as confidential;

(2) affects the applicant's competitive position; and

(3) has commercial value that may be significantly diminished by public disclosure or that public disclosure is not in the long-term fiscal interests of the state.

(c) Information determined to be confidential under (b) of this section is confidential under that subsection only so long as is necessary to protect the competitive position of the applicant, to prevent the significant diminution of the commercial value of the information, or to protect the long-term fiscal interests of the state. The commissioner of revenue or the commissioner of natural resources, as appropriate, may not release information that the commissioner has previously determined to be confidential under (b) of this section without providing the applicant notice and an opportunity to be heard.

(d) Notwithstanding the limitation in (c) of this section, the Department of Revenue and the Department of Natural Resources may provide to one another, to the Department of Law, to the legislature, and to the Office of the Governor any information provided under AS 43.82.300 relevant to the implementation of this chapter or to the enforcement of state or federal laws. Information that is exchanged under this subsection that was determined to be confidential under (b) of this section remains confidential except as provided in (c) of this section. The portions of the records and files of the Department of Revenue, the Department of Natural Resources, the Department of Law, the legislature, and the Office of the Governor that reflect, incorporate, or analyze information that is determined to be confidential under (b) of this section are not public records except as provided in (c) of this section.

(e) Notwithstanding the limitation in (c) of this section, information that is determined to be confidential under (b) of this section shall be disclosed on request by the commissioner of revenue, the commissioner of natural resources, or the attorney general to a legislator; to the legislative auditor; and, as directed by the chair or vice-chair of the Legislative Budget and Audit Committee, to the director of legislative finance, to the permanent employees of those divisions who are responsible for evaluating a contract under AS 43.82.020, and to agents or contractors of the legislative auditor or the director of legislative finance who are engaged to evaluate a contract under AS 43.82.020. Information that is determined to be confidential under (b) of this section may also be disclosed by the commissioner of

revenue or the commissioner of natural resources to an independent contractor under AS 43.82.240 or to a municipal advisory group established under AS 43.82.510. Before confidential information is disclosed under this subsection, the person receiving the information must sign an appropriate confidentiality agreement.

(f) If the commissioner of revenue chooses to develop a contract under AS 43.82.020, the portions of the records and files of the Department of Revenue, the Department of Natural Resources, the Department of Law, and a municipal advisory group established under AS 43.82.510 that reflect, incorporate, or analyze information that is relevant to the development of the position or strategy of the commissioner of revenue, the commissioner of natural resources, or the attorney general with respect to a particular provision that may be incorporated into the contract are not public records until the commissioner of revenue gives public notice under AS 43.82.410 of the commissioner's preliminary findings and determination under AS 43.82.400. Nothing in this subsection

(1) makes a record or file of the Department of Revenue, the Department of Natural Resources, or the Department of Law a public record that otherwise would not be a public record under AS 40.25.100 - 40.25.220;

(2) affects the confidentiality provisions of (a) - (e) of this section; or

(3) abridges a privilege recognized under the laws of this state, whether at common law or by statute or by court rule.

Article 05. CONTRACT REVIEW, APPROVAL, AND TERMINATION

Sec. 43.82.400. Preliminary findings and determination regarding the contract.

(a) If the commissioner develops a proposed contract under AS 43.82.200 - 43.82.270, the commissioner shall

(1) make preliminary findings and a determination that the proposed contract terms are in the long-term fiscal interests of the state and further the purposes of this chapter; and

(2) prepare a proposed contract that includes those terms and shall submit the contract to the governor.

(b) To make the preliminary findings and determination required by (a)(1) of this section, the commissioner shall compare the projected public revenue anticipated from the approved qualified project with the estimated operating and capital costs of the additional state and municipal services anticipated to arise from the construction and operation of the approved qualified project. The commissioner shall address the reasonably foreseeable effects of the proposed contract on the public revenue.

(c) In conjunction with the making of preliminary findings and determination required by (a)(1) of this section, the commissioner shall describe the principal factors, including the projected price of gas, projected production rate or volume of gas, and projected recovery, development, construction, and operating costs, upon which the determination made under (a)(1) of this section is based. If the commissioner has previously submitted a proposed contract to the governor, the commissioner shall describe any material differences between the terms of the currently proposed contract and the previously proposed contract.

Sec. 43.82.410. Notice and comment regarding the contract.

The commissioner shall

(1) give reasonable public notice of the preliminary findings and determination made under AS 43.82.400;

(2) make copies of the proposed contract, the commissioner's preliminary findings and determination, and, to the extent the information is not required to be kept confidential under AS 43.82.310, the supporting financial, technical, and market data, including the work papers, analyses, and recommendations of any independent contractors used under AS 43.82.240 available to the public and to

(A) the presiding officer of each house of the legislature;

(B) the chairs of the finance and resources committees of the legislature; and

(C) the chairs of the special committees on oil and gas, if any, of the legislature;

(3) offer to appear before the Legislative Budget and Audit Committee to provide the committee a review of the commissioner's preliminary findings and determination, the proposed contract, and the supporting financial, technical, and market data; if the Legislative Budget and Audit Committee accepts the commissioner's offer, the committee shall give notice of the committee's meeting to the public and all members of the legislature; if the financial, technical, and market data that is to be provided must be kept confidential under AS 43.82.310, the commissioner may not release the confidential information during a public portion of a committee meeting; and

(4) establish a period of at least 30 days for the public and members of the legislature to comment on the proposed contract and the preliminary findings and determination made under AS 43.82.400.

Sec. 43.82.420. Coordination of public and legislative review.

To the extent practicable, the commissioner shall coordinate the public comment opportunity provided under AS 43.82.410 (4) with a review by the Legislative Budget and Audit Committee under AS 43.82.410 (3).

Sec. 43.82.430. Final findings, determination, and proposed amendments; execution of the contract.

(a) Within 30 days after the close of the public comment period under AS 43.82.410 (4), the commissioner of revenue shall

(1) prepare a summary of the public comments received in response to the proposed contract and the preliminary findings and determination;

(2) after consultation with the commissioner of natural resources, if appropriate, and with the pertinent municipal advisory group established under AS 43.82.510, prepare a list of proposed amendments, if any, to the proposed contract that the commissioner of revenue determines are necessary to respond to public comments;

(3) make final findings and a determination as to whether the proposed contract and any proposed amendments prepared under (2) of this subsection meet the requirements and purposes of this chapter.

(b) After considering the material described in (a) of this section and securing the agreement of the other parties to the proposed contract regarding any proposed amendments prepared under (a) of this section, if the commissioner determines that the contract is in the long-term fiscal interests of the state, the commissioner shall submit the contract to the governor.

(c) The commissioner's final findings and determination under (a) of this section are final agency decisions under this chapter.

Sec. 43.82.435. Legislative authorization.

The governor may transmit a contract developed under this chapter to the legislature together with a request for authorization to execute the contract. A contract developed under this chapter is not binding upon or enforceable against the state or other parties to the contract unless the governor is authorized to execute the contract by law. The state and the other parties to the contract may execute the contract within 60 days after the effective date of the law authorizing the contract.

Sec. 43.82.440. Judicial review.

A person may not bring an action challenging the constitutionality of a law authorizing a contract enacted under AS 43.82.435 or the enforceability of a contract executed under a law authorizing a contract enacted under AS 43.82.435 unless the action is commenced within 120 days after the date that the contract was executed by the state and the other parties to the contract.

Sec. 43.82.445. Administrative termination of a contract.

(a) The commissioner shall include terms in a contract developed under AS 43.82.020 that provide for administrative termination of a party's rights under the procedures and conditions set out in this section if the party has

(1) ceased to meet the requirements of AS 43.82.110 as a qualified sponsor or qualified sponsor group;

(2) intentionally or fraudulently misrepresented, in whole or in part, material facts or circumstances upon which the contract was made;

(3) failed to comply with a condition or material term of the contract or a provision of this chapter; or

(4) failed to comply with the approved qualified project plan or any updated project plan.

(b) Before administrative termination of a contract under this section, the commissioner shall give notice to the parties of the commissioner's intent to terminate the contract and an opportunity to be heard. The commissioner may also provide the parties an opportunity to cure any deficiency that is the basis for the termination if the commissioner determines that curing the deficiency is appropriate under the circumstances.

(c) Notwithstanding (a) and (b) of this section, the commissioner may not administratively terminate a contract after the party has committed full project funding except as provided in (c) of this section.

(d) A party to a contract who is affected by the commissioner's action to terminate under (a) of this section may file an appeal with the superior court under the Alaska Rules of Appellate Procedure.

(e) The commissioner may provide terms and conditions in a contract developed under AS 43.82.020 upon which a party's rights under the contract may be administratively terminated after the party commits full project funding.

Article 06. MUNICIPAL PARTICIPATION

Sec. 43.82.500. Obligation to share payments with municipalities.

If the commissioner develops a contract under AS 43.82.020 that includes terms that exempt a party to the contract, and the property, gas, products, and activities associated with the approved qualified project that is subject to the contract, from a municipal tax or assessment in accordance with AS 29.45.810 or AS 29.46.010 (b), or AS 43.82.200 and 43.82.210, the commissioner shall include a term in the contract that the party pay a portion of the periodic payments due under the contract to the revenue-affected municipality.

Sec. 43.82.505. Payments to economically affected municipalities.

If the commissioner executes a contract under AS 43.82.020 that will produce one or more economically affected municipalities, the commissioner shall include a term in the contract that provides for a portion of the periodic payments to the economically affected municipalities under the principles in AS 43.82.520.

Sec. 43.82.510. Municipal advisory group.

(a) If the commissioner approves an application and proposed project plan under AS 43.82.140 and decides to develop a contract under AS 43.82.020 and 43.82.200, the commissioner shall notify each revenue-affected municipality and economically affected municipality.

(b) The mayor of a municipality notified by the commissioner under (a) of this section may appoint one representative to a municipal advisory group in relation to the application.

(c) Each municipal advisory group serves until a final action is taken on the application for which the group was appointed.

(d) Each municipal advisory group shall elect a chair.

Sec. 43.82.520. Duties of the commissioner of revenue in relation to municipal participation.

(a) The commissioner shall meet with each municipal advisory group periodically to report on the development of the contract provisions that affect the municipalities.

(b) In developing a contract under AS 43.82.200 - 43.82.270, the commissioner shall ensure that each revenue-affected municipality and economically affected municipality receives a fair and reasonable share of the payments provided under AS 43.82.210 in accordance with the following principles:

(1) the share of the payments to revenue-affected municipalities should be given priority over payments to economically affected municipalities with due regard to the anticipated size of the tax base that the contract would exempt from municipal taxation by revenue-affected municipalities;

(2) the share of the payments to municipalities should be determined with due regard to the anticipated economic and social burdens that would be imposed on the municipality by construction and operation of the project;

(3) the respective shares of the total payments to the state and to municipalities should be fixed in a manner to ensure that their respective interests are aligned;

(4) to the extent practicable, the periodic amounts paid to each of the municipalities should be stable and predictable; and

(5) to the extent practicable, the provisions for sharing payments with municipalities should be consistent with the principles established in AS 43.82.210 (b).

(c) In establishing the municipal shares under (b) of this section, the commissioner shall consult with the pertinent municipal advisory group.

Article 07. MISCELLANEOUS PROVISIONS

Sec. 43.82.250. Term of contract; effective date.

The term of a contract developed under AS 43.82.020 may be for no longer than is necessary to develop the stranded gas that is subject to the contract; however, the term of the contract may not exceed 35 years from the commencement of commercial operations of the approved qualified project.

Sec. 43.82.260. Change of parties to an application or a contract; assignment of interests.

(a) A qualified sponsor or member of a qualified sponsor group may assign an interest in or add or withdraw a party to an application under AS 43.82.120 only if the commissioner has

(1) made a finding that the assignment, addition, or withdrawal is consistent with the requirements of AS 43.82.110; and

(2) given prior written approval for the assignment, addition, or withdrawal.

(b) A contract developed under this chapter may provide for the assignment to or withdrawal of a qualified sponsor or member of a qualified sponsor group.

(c) Upon being added to an application under this section, a party becomes a qualified sponsor or a member of a qualified sponsor group, as appropriate, for the relevant project.

(d) The commissioner may not unreasonably withhold approval under (a) of this section, but may condition the approval in any way reasonably necessary to protect the fiscal interests of the state and to further the purposes of this chapter.

(e) For purposes of this section, an assignment includes a transfer of stock or a partnership interest in a manner that changes control of a qualified sponsor or member of a qualified sponsor group.

Sec. 43.82.270. Project plans and work commitments.

A contract under AS 43.82.020 must include the qualified project plan approved under AS 43.82.140 and provisions for updating the plan at reasonable intervals until the commencement of commercial operations of the approved qualified project. The commissioner of revenue, in consultation with the commissioner of natural resources, may, as a term in a contract under AS 43.82.020, include work commitments or other obligations in the contract to be accomplished before the commencement of commercial operations of the approved qualified project.

Article 04. REQUESTS FOR INFORMATION; CONFIDENTIALITY; DISCLOSURE OF INFORMATION

Sec. 43.82.300. Requests for information.

The commissioner of revenue or the commissioner of natural resources may request from an applicant information that the respective commissioner determines is necessary to perform the respective commissioner's responsibilities under AS 43.82.140. If the application is approved under AS 43.82.140, the respective commissioner shall require the successful applicant to provide financial, technical, and market information regarding the qualified project that the respective commissioner determines is necessary for the purpose of developing contract terms for the qualified project under AS 43.82.200. If requested information is not provided, the commissioner of revenue may not continue to review the application under AS 43.82.140 or develop the contract under AS 43.82.200 - 43.82.270, as applicable.

Sec. 43.82.310. Disclosure of information; confidentiality.

(a) An applicant may request confidential treatment of information that the applicant provides under AS 43.82.300 by clearly identifying the information and the reasons supporting the request for confidential treatment. The commissioner of revenue or the commissioner of natural resources, as appropriate, shall keep the information confidential until the commissioner determines whether the requirements of (b) of this section are met. If the commissioner of revenue or the commissioner of natural resources has not made a determination under (b) of this section within 14 days after receiving a request for confidential treatment, the request is considered denied. If the appropriate commissioner determines that the information does not meet the requirements of (b) of this section or if the commissioner fails to make a determination within 14 days, the commissioner shall return the information and any copies of it at the request of the applicant. If the commissioner of revenue or the commissioner of natural resources, as appropriate, returns information under this subsection, the commissioner shall cease review of the application or cease contract development under AS 43.82.200 - 43.82.270, as appropriate, unless the commissioner determines that the returned information is unnecessary to make a determination on the application or to develop contract terms under AS 43.82.200 - 43.82.270.

(b) If requested by the applicant, information provided to the commissioner of revenue or the commissioner of natural resources under AS 43.82.300 shall be kept confidential if the commissioner receiving the information determines, upon an adequate showing by the applicant, that the information

(1) is a trade secret or other proprietary research, development, or commercial information that the applicant treats as confidential;

(2) affects the applicant's competitive position; and

(3) has commercial value that may be significantly diminished by public disclosure or that public disclosure is not in the long-term fiscal interests of the state.

(c) Information determined to be confidential under (b) of this section is confidential under that subsection only so long as is necessary to protect the competitive position of the applicant, to prevent the significant diminution of the commercial value of the information, or to protect the long-term fiscal interests of the state. The commissioner of revenue or the commissioner of natural resources, as appropriate, may not release information that the commissioner has previously determined to be confidential under (b) of this section without providing the applicant notice and an opportunity to be heard.

(d) Notwithstanding the limitation in (c) of this section, the Department of Revenue and the Department of Natural Resources may provide to one another, to the Department of Law, to the legislature, and to the Office of the Governor any information provided under AS 43.82.300 relevant to the implementation of this chapter or to the enforcement of state or federal laws. Information that is exchanged under this subsection that was determined to be confidential under (b) of this section remains confidential except as provided in (c) of this section. The portions of the records and files of the Department of Revenue, the Department of Natural Resources, the Department of Law, the legislature,

and the Office of the Governor that reflect, incorporate, or analyze information that is determined to be confidential under (b) of this section are not public records except as provided in (c) of this section.

(e) Notwithstanding the limitation in (c) of this section, information that is determined to be confidential under (b) of this section shall be disclosed on request by the commissioner of revenue, the commissioner of natural resources, or the attorney general to a legislator; to the legislative auditor; and, as directed by the chair or vice-chair of the Legislative Budget and Audit Committee, to the director of legislative finance, to the permanent employees of those divisions who are responsible for evaluating a contract under AS 43.82.020, and to agents or contractors of the legislative auditor or the director of legislative finance who are engaged to evaluate a contract under AS 43.82.020. Information that is determined to be confidential under (b) of this section may also be disclosed by the commissioner of revenue or the commissioner of natural resources to an independent contractor under AS 43.82.240 or to a municipal advisory group established under AS 43.82.510. Before confidential information is disclosed under this subsection, the person receiving the information must sign an appropriate confidentiality agreement.

(f) If the commissioner of revenue chooses to develop a contract under AS 43.82.020, the portions of the records and files of the Department of Revenue, the Department of Natural Resources, the Department of Law, and a municipal advisory group established under AS 43.82.510 that reflect, incorporate, or analyze information that is relevant to the development of the position or strategy of the commissioner of revenue, the commissioner of natural resources, or the attorney general with respect to a particular provision that may be incorporated into the contract are not public records until the commissioner of revenue gives public notice under AS 43.82.410 of the commissioner's preliminary findings and determination under AS 43.82.400. Nothing in this subsection

(1) makes a record or file of the Department of Revenue, the Department of Natural Resources, or the Department of Law a public record that otherwise would not be a public record under AS 40.25.100 - 40.25.220;

(2) affects the confidentiality provisions of (a) - (e) of this section; or

(3) abridges a privilege recognized under the laws of this state, whether at common law or by statute or by court rule.

Article 05. CONTRACT REVIEW, APPROVAL, AND TERMINATION

Sec. 43.82.400. Preliminary findings and determination regarding the contract.

(a) If the commissioner develops a proposed contract under AS 43.82.200 - 43.82.270, the commissioner shall

(1) make preliminary findings and a determination that the proposed contract terms are in the long-term fiscal interests of the state and further the purposes of this chapter; and

(2) prepare a proposed contract that includes those terms and shall submit the contract to the governor.

(b) To make the preliminary findings and determination required by (a)(1) of this section, the commissioner shall compare the projected public revenue anticipated from the approved qualified project with the estimated operating and capital costs of the additional state and municipal services anticipated to arise from the construction and operation of the approved qualified project. The commissioner shall address the reasonably foreseeable effects of the proposed contract on the public revenue.

(c) In conjunction with the making of preliminary findings and determination required by (a)(1) of this section, the commissioner shall describe the principal factors, including the projected price of gas, projected production rate or volume of gas, and projected recovery, development, construction, and operating costs, upon which the determination made under (a)(1) of this section is based. If the commissioner has previously submitted a proposed contract to the governor, the commissioner shall describe any material differences between the terms of the currently proposed contract and the previously proposed contract.

Sec. 43.82.410. Notice and comment regarding the contract.

The commissioner shall

(1) give reasonable public notice of the preliminary findings and determination made under AS 43.82.400;

(2) make copies of the proposed contract, the commissioner's preliminary findings and determination, and, to the extent the information is not required to be kept confidential under AS 43.82.310, the supporting financial, technical, and market data, including the work papers, analyses, and recommendations of any independent contractors used under AS 43.82.240 available to the public and to

(A) the presiding officer of each house of the legislature;

(B) the chairs of the finance and resources committees of the legislature; and

(C) the chairs of the special committees on oil and gas, if any, of the legislature;

(3) offer to appear before the Legislative Budget and Audit Committee to provide the committee a review of the commissioner's preliminary findings and determination, the proposed contract, and the supporting financial, technical, and market data; if the Legislative Budget and Audit Committee accepts the commissioner's offer, the committee shall give notice of the committee's meeting to the public and all members of the legislature; if the financial, technical, and market data that is to be provided must be kept confidential under AS 43.82.310, the commissioner may not release the confidential information during a public portion of a committee meeting; and

(4) establish a period of at least 30 days for the public and members of the legislature to comment on the proposed contract and the preliminary findings and determination made under AS 43.82.400.

Sec. 43.82.420. Coordination of public and legislative review.

To the extent practicable, the commissioner shall coordinate the public comment opportunity provided under AS 43.82.410 (4) with a review by the Legislative Budget and Audit Committee under AS 43.82.410 (3).

Sec. 43.82.430. Final findings, determination, and proposed amendments; execution of the contract.

(a) Within 30 days after the close of the public comment period under AS 43.82.410 (4), the commissioner of revenue shall

(1) prepare a summary of the public comments received in response to the proposed contract and the preliminary findings and determination;

(2) after consultation with the commissioner of natural resources, if appropriate, and with the pertinent municipal advisory group established under AS 43.82.510, prepare a list of proposed

amendments, if any, to the proposed contract that the commissioner of revenue determines are necessary to respond to public comments;

(3) make final findings and a determination as to whether the proposed contract and any proposed amendments prepared under (2) of this subsection meet the requirements and purposes of this chapter.

(b) After considering the material described in (a) of this section and securing the agreement of the other parties to the proposed contract regarding any proposed amendments prepared under (a) of this section, if the commissioner determines that the contract is in the long-term fiscal interests of the state, the commissioner shall submit the contract to the governor.

(c) The commissioner's final findings and determination under (a) of this section are final agency decisions under this chapter.

Sec. 43.82.435. Legislative authorization.

The governor may transmit a contract developed under this chapter to the legislature together with a request for authorization to execute the contract. A contract developed under this chapter is not binding upon or enforceable against the state or other parties to the contract unless the governor is authorized to execute the contract by law. The state and the other parties to the contract may execute the contract within 60 days after the effective date of the law authorizing the contract.

Sec. 43.82.440. Judicial review.

A person may not bring an action challenging the constitutionality of a law authorizing a contract enacted under AS 43.82.435 or the enforceability of a contract executed under a law authorizing a contract enacted under AS 43.82.435 unless the action is commenced within 120 days after the date that the contract was executed by the state and the other parties to the contract.

Sec. 43.82.445. Administrative termination of a contract.

(a) The commissioner shall include terms in a contract developed under AS 43.82.020 that provide for administrative termination of a party's rights under the procedures and conditions set out in this section if the party has

(1) ceased to meet the requirements of AS 43.82.110 as a qualified sponsor or qualified sponsor group;

(2) intentionally or fraudulently misrepresented, in whole or in part, material facts or circumstances upon which the contract was made;

(3) failed to comply with a condition or material term of the contract or a provision of this chapter; or

(4) failed to comply with the approved qualified project plan or any updated project plan.

(b) Before administrative termination of a contract under this section, the commissioner shall give notice to the parties of the commissioner's intent to terminate the contract and an opportunity to be heard. The commissioner may also provide the parties an opportunity to cure any deficiency that is the basis for the termination if the commissioner determines that curing the deficiency is appropriate under the circumstances.

(c) Notwithstanding (a) and (b) of this section, the commissioner may not administratively terminate a contract after the party has committed full project funding except as provided in (e) of this section.

(d) A party to a contract who is affected by the commissioner's action to terminate under (a) of this section may file an appeal with the superior court under the Alaska Rules of Appellate Procedure.

(e) The commissioner may provide terms and conditions in a contract developed under AS 43.82.020 upon which a party's rights under the contract may be administratively terminated after the party commits full project funding.

Article 06. MUNICIPAL PARTICIPATION

Sec. 43.82.500. Obligation to share payments with municipalities.

If the commissioner develops a contract under AS 43.82.020 that includes terms that exempt a party to the contract, and the property, gas, products, and activities associated with the approved qualified project that is subject to the contract, from a municipal tax or assessment in accordance with AS 29.45.810 or AS 29.46.010 (b), or AS 43.82.200 and 43.82.210, the commissioner shall include a term in the contract that the party pay a portion of the periodic payments due under the contract to the revenue-affected municipality.

Sec. 43.82.505. Payments to economically affected municipalities.

If the commissioner executes a contract under AS 43.82.020 that will produce one or more economically affected municipalities, the commissioner shall include a term in the contract that provides for a portion of the periodic payments to the economically affected municipalities under the principles in AS 43.82.520.

Sec. 43.82.510. Municipal advisory group.

(a) If the commissioner approves an application and proposed project plan under AS 43.82.140 and decides to develop a contract under AS 43.82.020 and 43.82.200, the commissioner shall notify each revenue-affected municipality and economically affected municipality.

(b) The mayor of a municipality notified by the commissioner under (a) of this section may appoint one representative to a municipal advisory group in relation to the application.

(c) Each municipal advisory group serves until a final action is taken on the application for which the group was appointed.

(d) Each municipal advisory group shall elect a chair.

Sec. 43.82.520. Duties of the commissioner of revenue in relation to municipal participation.

(a) The commissioner shall meet with each municipal advisory group periodically to report on the development of the contract provisions that affect the municipalities.

(b) In developing a contract under AS 43.82.200 - 43.82.270, the commissioner shall ensure that each revenue-affected municipality and economically affected municipality receives a fair and reasonable share of the payments provided under AS 43.82.210 in accordance with the following principles:

(1) the share of the payments to revenue-affected municipalities should be given priority over payments to economically affected municipalities with due regard to the anticipated size of the tax base that the contract would exempt from municipal taxation by revenue-affected municipalities;

(2) the share of the payments to municipalities should be determined with due regard to the anticipated economic and social burdens that would be imposed on the municipality by construction and operation of the project;

(3) the respective shares of the total payments to the state and to municipalities should be fixed in a manner to ensure that their respective interests are aligned;

(4) to the extent practicable, the periodic amounts paid to each of the municipalities should be stable and predictable; and

(5) to the extent practicable, the provisions for sharing payments with municipalities should be consistent with the principles established in AS 43.82.210 (b).

(c) In establishing the municipal shares under (b) of this section, the commissioner shall consult with the pertinent municipal advisory group.

Article 07. MISCELLANEOUS PROVISIONS

Sec. 43.82.600. Governing law.

If a provision of this chapter conflicts with another provision of state or municipal law, the provision of this chapter governs.

Sec. 43.82.610. Regulations.

The commissioner of revenue, the commissioner of natural resources, and the commissioner of labor and workforce development may adopt regulations to carry out their respective duties under this chapter.

Sec. 43.82.620. Procedures for collection of amounts due; security.

(a) The commissioner may adopt procedures for the collection of amounts due the state under a contract developed under AS 43.82.020, including the collection of interest and penalties.

(b) The commissioner may require a party to a contract developed under AS 43.82.020 to provide security sufficient to guarantee amounts due under the contract.

Sec. 43.82.630. Reports and audits.

The commissioner may require periodic reports from and may at reasonable intervals conduct audits and inspect the books of a party that has entered into a contract developed under AS 43.82.020 to ensure compliance with the provisions of this chapter and the regulations adopted under this chapter and of the terms of the contract.

Sec. 43.82.640. Annual report of the commissioner of labor and workforce development.

On an annual basis, the commissioner of labor and workforce development shall prepare and present to the legislature a comprehensive report on each party to a contract with the state developed under AS 43.82.020, and its contractors, regarding the state residency of the employees working in this state on the

approved qualified project that is subject to the contract. The commissioner of labor and workforce development shall use state data bases, including data from the quarterly reports by a party to the contract developed under AS 43.82.020 and its contractors for unemployment insurance purposes, to determine state residency of employees regarding compliance with AS 43.82.230.

Article 08. GENERAL PROVISIONS

Sec. 43.82.900. Definitions.

In this chapter, unless the context requires otherwise,

(1) "affected municipality" means an economically affected municipality or a revenue-affected municipality;

(2) "commencement of commercial operations" means the start of regular deliveries of marketable products from an approved qualified project;

(3) "cubic foot of gas" means the quantity of gas contained in a volume of one cubic foot at a standard temperature of 60 degrees Fahrenheit and a standard absolute pressure of 14.65 pounds per square inch;

(4) "economically affected municipality" means a municipality the commissioner of revenue determines will be reasonably required to provide additional public services under the terms proposed in an application approved under AS 43.82.140 (a); the commissioner may consider historical data from construction of the Trans Alaska Pipeline System, and information submitted by a municipality in making the determination;

(5) "economic proximity" means the distance within which a person may be willing to design, construct, and operate a gas line to provide service to a local consumer;

(6) "economic rent" means the estimated total gross revenue less estimated total costs for a qualified project over the term of a contract under AS 43.82.020, measured in undiscounted nominal dollars; for purposes of this paragraph, total costs do not include a rate of return on capital, financing costs, or any payments to governments;

(7) "full project funding" means full approval by a party to a contract under AS 43.82.020 for the expenditure of the capital necessary for construction and operation of the approved qualified project that is subject to the contract;

(8) "gas" has the meaning given in AS 43.55.900;

(9) "group" means two or more persons;

(10) "lease or property" has the meaning given in AS 43.55.900;

(11) "periodic payment" means payment made in lieu of one or more other taxes under a contract under AS 43.82.020;

(12) "revenue-affected municipality" means a municipality that the commissioner of revenue reliably expects will be restricted from imposing a tax, or a portion of a tax, as a result of implementation of a contract developed under this chapter;

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

Sec. 43.82.990. Short title.

This chapter may be cited as the Alaska Stranded Gas Development Act.

BP Testimony

Senate Special Committee on Natural Gas Development

June 3, 2006

Thank you for the opportunity to testify this morning. For the record, my name is David Van Tuyl. I work for BP as the commercial manager of the Alaska Gas group. It's a privilege for me to be able to offer my testimony on these two bills. We support the intent behind both SB-2003 and SB-2004. We believe these bills will help progress the gas pipeline fiscal contract.

SB-2003 (PipeCo)

First, I'd like to offer some comments on SB-2003, the Act that would establish the Alaska Natural Gas Pipeline Corporation, which I'll call "PipeCo" for short. SB-2003 as drafted will enable the State to form a public corporation as the vehicle for the State to be a direct participant in the project.

Public Meetings

Article 1 establishes PipeCo and sets the rules of governance within PipeCo. An important aspect of the rules of governance is an exemption from the Open Meetings Act, which ensures that PipeCo can hold certain confidential information it receives from the Limited Liability Corporation (or LLC) as confidential. But the rules of governance strike a good balance in that they require a policy of conducting at least one meeting in public each year.

Confidentiality

Article 2 establishes the purpose and powers of the new corporation. This Article establishes PipeCo's authorities in an appropriate manner to conduct its business as a member of the gas pipeline LLC, but we do have a concern that PipeCo needs to be able to hold confidential information as confidential. This will ensure the free flow of information between the members of the LLC which is critical to the efficient functioning of the corporation. The remaining provisions of SB-2003 are fit for purpose and allow PipeCo to effectively participate in the project. We therefore support passage of SB-2003 provided that the bill ensures that PipeCo can keep confidential information as confidential.

SB-2004 (SGDA Amendments)

Now I'd like to turn attention briefly to SB-2004, which includes amendments to the Stranded Gas Development Act. SB-2004 will enable the legislature to authorize approval of the gas pipeline fiscal contract.

Certain Upstream Costs are Currently Reimbursed by State

The Administration did a good job in structuring these amendments and in explaining them to this committee. However, there is one point that we see a bit differently than the Administration, and that we'd like to take a moment to clarify for the record. The Administration stated that the amendment to AS 43.82.220(a) paragraph (2) that allows for the inclusion of terms in the contract related to the State reimbursing the producers for

certain upstream costs was required because this was not a right the producers currently hold under either existing lease or unit agreements. We don't agree. In old form leases (known as "DL-1" leases), the State is obligated to pay for upstream costs associated with any of its gas it takes in kind. So we feel that this is a lease right associated with these DL-1 leases. The vast majority of the known North Slope gas resource, around 90%, is found on these DL-1 leases. The fiscal contract simply extends that existing lease right to all gas from all leases.

Conclusion

To conclude my brief comments, I want to emphasize that BP stands ready, willing and able to advance the gas pipeline project, along with our partners ConocoPhillips, ExxonMobil and the State of Alaska. The gas pipeline fiscal contract, coupled with SB-2003 and SB-2004, makes that objective possible. BP also stands ready to work with the legislature as you complete your work on these bills.

We support passage of SB-2003 and SB-2004, and then encourage the legislature to approve the gas pipeline fiscal contract to enable all Alaskans to benefit from one of the largest energy projects on the planet.

Thank you for the opportunity to testify. I'd be happy to try and answer any questions you might have.

FAX TO (907) 465-5241

Committee Meetings



(H)FINANCE

June 03 Saturday 8:00 AM

= SB2001

STANDING COMMITTEE *

HOUSE FINANCE 519

OIL AND GAS TAX

(H)RESOURCES

June 03 Saturday 8:30 AM

=+ HB2004

STANDING COMMITTEE *

CAPITOL 124

STRANDED GAS DEVELOPMENT ACT
AMENDMENTS

TELECONFERENCED

(S)SPECIAL COMMITTEE ON
NATURAL GAS DEV

June 03 Saturday 9:00 AM

=+ SB2003

=+ SB2004

SPECIAL COMMITTEE *

SENATE FINANCE 532

NATURAL GAS PIPELINE CORPORATION TELECONFERENCED

STRANDED GAS DEVELOPMENT ACT
AMENDMENTS

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MY TESTIMONY FOR THE HEARING

David Zeig
CEO, ANGDA

Comments of the
Alaska Natural Gas Development Authority on
SB 2003 Natural Gas Pipeline Corporation

Public Testimony on June 03, 2006
Before the Alaska Senate
Special Committee on Natural Gas Development

Thank you for the opportunity to speak during this public comment period.

My name is Harold Heinze. I am a State employee and head up the Alaska Natural Gas Development Authority (ANGDA). ANGDA is a public corporation of the State and in 2002 the Authority was assigned broad powers to bring natural gas from the North Slope to market (AS 41.41.010). ANGDA has taken the lead on in-state gas uses and a lateral gas line connection to the Cook Inlet area.

The ANGDA Board has followed closely over the last couple years the public information on the Stranded Gas Act negotiations. Since the release of the gas contract and supporting documents less than a month ago, ANGDA has been reviewing its provisions with a focus on in-state gas use. That review has expanded over the last few days to include the gas related legislation introduced by the Murkowski administration.

Since ANGDA was not inside the negotiating confidentiality fence we have had to cold read the Contract and absorb the numerous consulting studies. In this first pass review, several of us have flagged concerns that the Contract language and provisions will make the actual delivery and use of North Slope gas to Alaskan communities and citizens very difficult. Discussion papers on the several topics are currently being prepared for the June 12 Special ANGDA Board meeting and a listing of the topical items is attached.

At the June 12 meeting, the ANGDA Board will be considering specific modifications to the contract and I believe that these suggestions if incorporated will facilitate the common goal of making North Slope gas available in Alaska.

Prior to that time there are two observations that I would like to flag for the Committee's consideration.

First, ANGDA already exists and functions. ANGDA may be useful to the State in the creation and/or transition to the ANGPC proposed in SB 2003. Also, the relationship of these two similar corporations of the State is of longer-term significance to accomplishing the State's goals.

Secondly, it is important that the State not disadvantage itself by failing to create and fully fund the operations of its gas pipeline corporations. At the same time, it should be recognized that in creating ANGPC under SB 2003 the Legislature is making the decision that the State invest in the gas pipeline project. ANGPC is not the decider, only the management implementer of that decision. The Legislature's decision to invest billions of public dollars and debt should be based on a due diligence standard that has not been part of the public legislative considerations to date. The legislature may wish to create and fund ANGPC, but condition the activation of its full authorities on the approval of the contract.

ANGDA wishes to be a positive force in advancing the Gas Line Contract and will interact with you as requested.

In-State Gas Issues in Contract with the Producers

- Implications of State Gas Line Ownership and ANGDA's Potential Roles
- State as a Gas Marketer and ANGDA's Potential Roles
- Preserving the Option for the Separation of Natural Gas Liquids in Alaska
- The Value of Public Information on the Gas line Project to Alaskans
- Implications of Gas Line Management Decisions on In-State Gas Movements
- Status of Federal (FERC) and State Regulatory Agencies (RCA & AOGCC)
- Application of the Contract to Other Gas Producers or Areas (i.e., Cook Inlet)
- Project Schedule & Timeline Implications for Potential In-State Markets

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Oil and Gas
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Providing coverage of Alaska and northern Canada's oil and gas

Expert: Success in big projects upfront

Al Rogers with Independent Project Analysis gives legislators heads up based on company's upstream project evaluation system

Kristen Nelson

Petroleum News

An Alaska natural gas pipeline project would be a mega project, with a price tag estimated at \$20 billion to \$25 billion.

Members of the Alaska Legislature got an overview of the risks associated with such projects — and mitigation measures that can address some of those risks.

Al Rogers of Virginia-based Independent Project Analysis told legislators May 19 at one of the administration's gas pipeline fiscal contract overview sessions that IPA got its start as a result of the 1980s oil boom, the big projects of that time and the track record of those projects.

Contractor availability an issue in mega projects

There has been a lot of consolidation among contractors and a lot have gone out of business, leaving some 10 major contractors with 75 percent of the upstream and downstream oil and gas work, Al Rogers of Independent Project Analysis told Alaska legislators May 19 as part of a summary of mega project requirements.

An abbreviated version of those projects, he said, goes something like this: "They ended up costing twice as much as predicted. They took twice as long. And they only worked half as well as predicted."

Rogers, who has a Ph.D. in geology and geophysics and worked on operations and research assignments for Exxon and a small independent, has for the last 10 years been with Independent Project Analysis, a company that looks at projects and analyzes the outcomes compared to what was authorized. The company's founder Ed Merrill worked at Rand Corp., and had the task under a U.S. government contract of identifying the drivers of those unsuccessful outcomes for 1980's projects, Rogers said.

Merrill founded Independent Project Analysis, or IPA, and focused on statistical analysis of projects, both large and small.

IPA, Rogers said, "is the only company in the world" with extensive databases comparing what was promised when projects were authorized with the final outcomes.

Schedule acceleration guarantees difficulties

"The primary thing you can do to guarantee difficulty in a project of this magnitude is to try to accelerate the schedule," Rogers said.

Mega projects, such as the proposed Alaska North Slope gas pipeline, aren't like the broad range of some 10,000 projects IPA has in its database, Rogers said. Other projects have an outcome distribution from good to bad while mega projects have two outcomes: about as predicted and disasters.

Front-end loading, all the activities that occur before a project is authorized with a firm cost estimate, is something IPA has historically been associated with, he said. In IPA's experience people want to get on with mega projects — selecting the route, cutting steel, welding — but successful mega projects involve what Rogers called "early-time preparatory activities."

He said a mega project is one that meets one or more criteria: the cost is greater than \$1 billion; "it's being executed in a region where the project alone changes an environment" such as labor needs or infrastructure; or it represents a major step-out of complexity, size or location for the company.

Mega projects also attract a lot of attention, he said, both from formal

He said he believes there is less capability for major projects now than in 1985, when the first oil bust occurred, "yet we're trying to do more projects."

And those contractors are coming out of a time when they had to bid on contracts, even though returns weren't acceptable, because the alternatives were to bid and risk losing money on a contract or not to bid and have no work.

Rogers said IPA believes that has changed. In 2002 and early 2003, under the old regime, teams would build an estimate for a project and take it to management, comfortable that there would be little difference between that estimate and bids from contractors.

But starting in 2004, he said, bids are departing from estimates, sometimes significantly.

In some places project teams are getting bids before they go for project authorization to have a better feel for the market.

stakeholders and from people who are not formal stakeholders but believe they have a right to be involved in the project.

Rogers said industry tends to have a narrow focus for projects and from looking at very big and mega projects it is necessary very early on to expand the scope of people who "legitimately or at least in their own mind might be stakeholders. Because the success for running fast after authorization is to make certain that all of those early-time potential stakeholders have either been satisfied or you're reconciled somehow you're going to handle their objections."

He said that in studying mega project failures, "the common thread was pushing past somebody who thought they had a legitimate right to be a stakeholder" because if they raise objections later, the risk of delay "goes significantly higher."

High failure rate

Rogers said IPA evaluates a project in four ways: compare it what IPA estimates industry would have spent on the project; how well did the project stay on schedule; how did it do against its own proposed budget; and on whether it had "severe and continuing operational problems" following completion. By these measures only 44 percent of mega projects were successful, with 42 percent failing on one measure, 32 percent on two measures, 21 percent on three and 5 percent failing on all four measures.

Compared to other projects, mega projects "rather than being robust because of their size are inherently very fragile," Rogers said, can get off track very easily, and once they get off track "they're almost impossible to get back. And so you lose control."

Public information about Sakhalin provides an example, he said: they have had significant cost increases. But more important, he said, "the project team essentially lost control of what was happening. They eventually had project manager changes. Things had changed so much that they no longer had a guide or blueprint by which to go forward in the execution of the project."

That is why IPA focuses so much on front-end work, he said.

All projects need front-end work to define, plan and schedule, he said, "but particularly mega projects."

"If that work is left undone or it is allowed to slip, that turns out to be

The other problem is not getting enough bids: where a project used to get three to five bids, now it might get one or two.

Rogers said Saudi Aramco is now paying contractors to develop the estimate to ensure that they get enough bids — three are required by the Saudi government — because contractors now have as much work as they want.

He also said the quality of bids is declining. The range between the low bid and the next highest bid has "increased dramatically," Rogers said. A requirement to take the lowest bid wasn't a problem where the range between the bids was reasonable. But the range is now greater between the low bid and most other bids, and "what we're seeing is the low bidder does not understand the job and the project." The low bidder will tend to have more cost increases because they didn't understand the project.

Who bears risk an issue

one of the primary attendant drivers of mega project failure."

And how is success measured?

Good mega projects come in plus or minus 10 percent on cost and schedule, he said.

Front-end loading

Rogers said as much as 5 percent of the project's cost may need to be spent on the front-end. One project offshore Eastern Canada had a 100 percent cost overrun and was two years late. He said those in charge of the project said the up-front costs were too high, that management would never approve them, and went ahead without any front-end definition, just began executing the project.

Integrated teams are also important, he said, and while industry does that pretty well, with mega projects they only do it half as well.

Joint venture projects are more successful, Rogers said: "Our data show that having more joint venturers leads to better results at the end even though the pathway is rockier and more contentious. The thing that more partners do is they bring different points of view."

He said anecdotal evidence suggests that joint ventures are problematic but the data IPA has collected doesn't support that. The data, he said, shows that mega projects with fewer JV partners have worse outcomes. That's because the JV partners will have different experiences and different areas of expertise and will bring things to the team's attention that need to be done early vs. late in the process.

"Projects that have a higher number of owners, JV partners, develop better front-end loading. They do their homework to a statistically significant better level," he said.

Asked about how successful the gas pipeline sponsors, BP, ConocoPhillips and ExxonMobil, have been with mega projects, Rogers said they all have done successful mega projects. And all have done unsuccessful mega projects.

"And I'll say this pretty loudly: it's not the company, the company culture or policies and practices. It's the team they put together and the amount of front-end work they do."

Looking at the upstream industry in general, he said, "There's a wide

Part of this is because the contractors are having risks pushed on them and their profit margin has been severely cut. Many major contractors have told IPA they will no longer accept engineering, procurement and construction lump-sum contracts because of the substantial risks involved. Lump sum contracts pay a larger penalty as the project gets larger, entirely related to risk, and some companies have started breaking projects up into a number of smaller lump-sum contracts. The problem with this is that the more contracts you have, the more oversight issues you have.

Two kinds of risks have been transferred to contractors with lump-sum contractors: not enough people, the staffing risk; and the economic risk if things go wrong. "Contractors have not been able to charge a risk premium," Rogers said. "Today they can charge a risk premium."

In addition to the difference between the lowest and other bids

variation in outcomes based on the quality and effort of the team."

Clear understanding of objectives

Rogers said there are a number of things to be considered when doing a mega project.

All members of the project team must have a clear understanding of the objectives when the project is authorized. IPA data shows that in 20 percent of mega projects that clear understanding is lacking. It's easy to have multiple objectives when things are going smoothly; "The tough thing comes when you have a problem and you have to decide," decisions such as what's more important — cost or schedule; cost or operability? It is one area where having a joint venture may cause a problem, he said, because if the JV partners aren't agreed on project objectives, then they have conflicting objectives and the project team doesn't have clear guidance.

In addition to a definition of the project, the team needs to be robust — not a lot of holes in the organization chart and not a lot of boxes filled by the same person; and full staffing needs to occur early on in the front-end process.

If a project team can't meet objectives the reason is likely that owners didn't give them enough time, or enough money or enough people.

Rogers said that unsuccessful projects are not the result of stupid people, or people who didn't work hard. "What happened is things occurred that distracted the project management," drew them off to fight fires. There have to be enough people on staff that there is "the capability to fight fires as they occur to keep the project on track."

The people who are going to operate also need to be involved early on so that their comments about what will work and what will make things reliable are heard early on. "One of the major sources of late changes in mega projects is bringing the operations people in late" and being told then that something won't work for safety or reliability reasons.

As for the cost, Rogers said the amount of money saved by not doing it right upfront will be more than made up by cost overruns and late completion if the upfront work isn't done. "That's the entire thesis that the data says the late-time costs are significantly more than the early-time investment in all of these things we're touting," he said.

for lump-sum contracts, Rogers said another phenomenon on large projects that is becoming worrisome is the frequency of contractor claims for changes made in the contract. Because mega projects are complex and relatively unstable there are going to be changes, he said, "which are opportunities for claims," and the frequency of those claims is up and the value of the claims as a percentage of the contracts is up significantly.

The gas line project has a lot of inherent risks, and by project definition and upfront work the project owners can get a handle on those risks, Rogers said, but that doesn't mean the risks can be eliminated. And once the owners have a handle on the risks, they "have to be able to assure the contractors that most of the major risks are going to be handled by the owners. Because at the bottom line ... the risks come back to the owners anyway."

"If the owner assumes most of the risks going

And a crucial part of doing that upfront work is having the team in place: "You can't get to good FEL (front-end loading) unless you start with an adequately staffed good team."

Team needs enough authority

Joint venture partners will bring different large-project processes to the table, Rogers said, and IPA's data shows that it's important to pick one of the processes, not to try to create a hybrid from all of the systems, because "nobody has experience with the hybrid system. Nobody knows how to operate in it."

An issue that will probably be difficult for the state is giving the project team enough decision-making authority, he said. Otherwise so much time is wasted taking things to the governing committee for approval that the project gets off track.

What IPA recommends, he said, is that as long as a team is within an approved budget for each phase of the project the authority should rest with the team. "And if you're not willing to give that team those authorities, then the question is whether you really trust the people that you've detailed to do this job."

What drives lack of trust, Rogers said, "is nonalignment on business issues," nonalignment on objectives.

With a project process the team asks for money to do things in "Gate 2" at the end of "Gate 1." With a budget and a schedule the team has permission to do those things.

While integrated teams and adequate authority are important drivers of success, "the underlying driver is those characteristics are associated with better preparatory work — better front-end loading. That's what the data says."

What is front-end loading?

Rogers said front-end loading, where IPA puts its emphasis, is everything before project authorization.

This includes appraisal: what are the different ways things could be done? It includes selecting — making some final decisions about the scope of the project, such as the diameter of the pipeline, the route, major equipment, degree of instrumentation and degree of automation. Then the project is defined and engineering is done to specify how the

forward, the delta between the bid and the owner's estimate is not that great. It's acceptable," Rogers said. The alternative, when most risks are passed on to the contractor, is that the contractor asks for a significant risk premium.

Prices have increased some 50 to 70 percent since 2004, he said, driven by a tight labor market; the escalation in materials' prices, such as steel, but also a shortage of line pipe; and an increase in contractor profit margins, which dropped to 5-6 percent in the 1990s and are now being pushed back up to the 10-12 percent they were in the pre-1985 timeframe.

—Kristen Nelson

project will implement the decisions.

That detail provides the information for a firm cost estimate, he said.

Rogers said he realized legislators were concerned because they didn't know how much the project would cost and how long it would take, and are worried about what could happen in the bad case. That, he said, is a function of how much the project team does before the project gets final authorization.

How much is enough?

Advanced engineering status before final approval includes 18-30 percent of design complete; extensive input into design from owner/operator; and finalized process technology. About 55 percent of mega projects achieved advanced engineering status. The results: 3 percent cost deviation compared to 29 percent for other projects; 7 percent schedule slip compared to 21 percent; 11 percent of projects had operating problems compared to 50 percent; and 70 percent project success compared to 20 percent.

Scheduling

The long lead times required for some items is the biggest issue for project execution planning and scheduling, Rogers said.

Labor is also important, he said, noting that Alberta oil sands projects are running into a problem because labor is not as productive as expected.

The temptation is to let the contractor worry about labor, but Rogers said unless the project team "has their own resource level schedule (for labor), they really don't know what is doable and what the impact is going to be on the environment of execution."

The objection to doing resource loading is that it costs time, but he said the only way a team can "evaluate whether contractor bids are credible or not" is by having their own "independently devised schedule and manpower loading."

And resource loading isn't just manpower, he said: "It's vehicles to lay pipe. It's a whole host of equipment — things that may or may not be in short supply."

Late changes — things not included in the plan — can have a big cost

on the project, Rogers said. "If it's late, it has cascading effects in terms of more costs ... a stretched schedule as well as poor operability," he said. And late changes happen to even the best defined projects: almost half of mega projects "have major late changes," he said. But, he said, 100 percent of projects with poor definition have late changes.

How much time does front-end loading take?

About half the time it takes to execute a project, Rogers said, two and a half to three years of front-end loading for a project that takes five to six years to execute.

Aggressive schedule targets contribute to premature starts on detailed engineering and fabrication: 73 percent of projects driven to fulfill a schedule were failures, he said.

And when do you know how long a project will take, he asked. That is possible only after you look at all of the components, all of the activities that it takes to do the project. "And the tendency for everybody before they look at the inputs is to do what? Underestimate the time," Rogers said.

While schedule-driven projects are expensive, "they're not significantly faster," he said, because once you get behind you spend more money trying to catch up and costs balloon.

Based on some mega projects that have "recaptured control" after bad things happened, "the best thing to do is to admit that you may not make the schedule, re-baseline and calibrate," and don't spend a lot of money trying to recapture the original schedule.

When should commitment be made?

Rogers was asked when during front-end loading the companies, and the State of Alaska, should commit to a project.

With three phases of FEL, he said, commitment would be at the end of FEL 2. At this point the team knows what the major scope decisions are, and the commitment can be made to approve the project if the team comes back at the end of FEL 3 with an estimate within the range of what they had at the end of FEL 2. A lot of money will be spent in FEL 3, Rogers said, "and you really don't want to go forward and do that and at the end say, whoops, I don't like the answers."

As to whether the participation of a government increases or decreases the chances of project success, Rogers said "it's how well that government company participated in team selection, business objectives and FEL." He offered examples that went both ways. "The participation of a government in equity is not, in and of itself, a driver of success or failure. It's how the government behaves and whether they endorse or demand good behavior."

Asked about work commitment language in the gas pipeline contract Rogers said he thinks "there's more work commitment language than there is in most of the other ones that I've looked at. And so my opinion is that it's a pretty good balance." Successful mega projects have early-time work, he said, and some of that "is characterized by the statements that are made in the work commitments package. In fact, it's getting more than is in the work commitments package done that's going to give you success, not just hewing to the letter," he said.

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SB 2003

[illegible]

ADOPTED

SB 2003

Natural Gas Development
COMMITTEE #1

To Bill Number: SB2003

24-GS2056A.2

Sponsor: Bunde

Cook

Date: 6/3/06 Logged by: Mindy

6/2/06

AMENDMENT

ADOPTED

OFFERED IN THE SENATE

BY SENATOR BUNDE

TO: SB 2003

- 1 Page 5, line 16, following "(c)":
- 2 Insert "At least three of the public members of the board must be state residents. Other
- 3 public members need not be state residents."

Special Committee on Natural Gas Development

6/3/2006

COMMITTEE ACTION

Bill Number	SB 2003		
Amendment	#1		
Motion	adopt		
<u>Motion by</u>	Bunde		
<u>Objection by</u>	Seekins & Green		
<u>Removed</u>	✓		
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
Senator Olson			
Senator Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffrnan			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	Pass		

Natural Gas Development
COMMITTEE

Amendment # #2

To Bill Number: SB 2003

Sponsor: Bunde

Date: 6/3/06 Logged by: Mindy

24-GS2056\A.3

Cook

6/2/06

WITHDRAWN

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR BUNDE

TO: SB 2003

- 1 Page 6, line 8:
- 2 Delete "or portion of a day spent"
- 3 Insert "during which the member spent at least four hours"

Special Committee on Natural Gas Development

6/3 /2006

COMMITTEE ACTION

Bill Number	SB 2003		
Amendment	#2		
Motion	adopt		
<u>Motion by</u>	Bunde		
<u>Objection by</u>	Green		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
Senator Olson			
Senator Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffman			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	Withdrawn		

Natural Gas Development
COMMITTEE # 3 (Amended)
Amendment #
To Bill Number: SB 2003
Sponsor: Bunde
Date: 6/3/06 Logged by: Mindy

24-GS2056A.4
Cook
6/3/06

AMENDMENT

ADOPTED

OFFERED IN THE SENATE
TO: SB 2003

BY SENATOR BUNDE

- 1 Page 6, line 29:
- 2 Delete "promptly"
- 3
- 4 Page 6, line 30, following "board":
- 5 Insert "within ⁹⁰~~30~~ days after the seat becomes vacant"

Natural Gas Development
COMMITTEE

Amendment # # 3

To Bill Number: SB 2003

Sponsor: Bunde

Date: 6/3/06 Logged by: Mindy

24-GS2056\A.4

Cook
6/3/06

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR BUNDE

TO: SB 2003

- 1 Page 6, line 29:
- 2 Delete "promptly"
- 3
- 4 Page 6, line 30, following "board":
- 5 Insert "within 30 days after the seat becomes vacant"

Special Committee on Natural Gas Development

6/3/2006

COMMITTEE ACTION

Bill Number	SB 2003		
Amendment	#3		
Motion	adopt		
	as amended		
<u>Motion by</u>	Bunde		
<u>Objection by</u>	Green		
<u>Removed</u>	✓		
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
Senator Olson			
Senator Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffman			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	Pass		

Special Committee on Natural Gas Development

6/3/2006

COMMITTEE ACTION

Bill Number	SB 2003		
Amendment	#3		
Motion	Amend		
<u>Motion by</u>	Wilken		
<u>Objection by</u>	Green		
<u>Removed</u>	✓		
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
Senator Olson			
Senator Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffman			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	PASS		

1 **Sec. 41.42.035. Minutes of meetings.** The board shall keep minutes of each
2 meeting and send a copy of the minutes to the governor and to the Legislative Budget
3 and Audit Committee after the minutes have been approved by the board. The minutes
4 shall be made available to the public provided, except any information that is
5 confidential under AS 41.42.520 shall be redacted from the minutes.

6 **Sec. 41.42.040. Compensation of board members; transportation and per**
7 **diem.** A public member of the board is entitled to receive an honorarium of \$400 for
8 each day or portion of a day spent ^{in physical attendance} at a meeting of the board, a meeting of a
9 subcommittee of the board, and a public meeting or hearing before the legislature or
10 other governmental body when serving as a representative of the board. Members of
11 the board are entitled to a transportation and per diem allowance as provided for
12 members of state boards and commissions under AS 39.20.180. The board shall, in its
13 bylaws or other governing document, adopt policies and procedures to ensure that
14 compensation or other economic benefit is not paid to a member of the board or other
15 person if the value of the compensation or other economic benefit paid by the board
16 would exceed the value of the consideration provided to the corporation. The board's
17 policies and procedures must be sufficiently detailed to ensure that proposed
18 compensation or other economic benefit arrangements are reasonable, and must
19 provide that the board may not approve compensation or other economic benefit
20 arrangements if a board member who has an economic interest in the matter
21 participates in making the determination.

22 **Sec. 41.42.045. Removal and vacancies.** (a) A public member of the board
23 may only be removed by the governor for cause. The governor shall provide written
24 notice of the removal to the member. After receiving written notice of removal, a
25 member may not

- 26 (1) participate in board business;
27 (2) be counted towards establishment of a quorum; or
28 (3) receive payments otherwise authorized under AS 41.42.040.

29 (b) The governor shall promptly make an appointment to fill a vacancy on the
30 board. An appointee under this subsection holds the office for the balance of the term
31 for which the appointee's predecessor on the board was appointed.

1 (2) the commissioner of transportation and public facilities;

2 (3) five public members appointed by the governor who

3 (A) do not hold any other state or federal office, position, or
4 employment, either elective or appointive, except as a member of the armed
5 forces of either the United States or this state; and

6 (B) have recognized competence and wide experience in one or
7 more of the following:

8 (i) finance, investments, or other business management
9 related fields;

10 (ii) the oil or gas industries.

11 (b) If a member described in (a)(1) or (2) of this section is unable to attend a
12 meeting of the board, the member may, by an instrument in writing filed with the
13 board, designate a deputy commissioner or assistant commissioner to act in the
14 member's place at the meeting. The designee appointed under this subsection is a
15 member of the board at the meeting designated in the instrument.

16 (c) A public member of the board is appointed for a six-year term, except that
17 the terms of the public members who are initially appointed shall be determined in
18 accordance with AS 39.05.055(3). The governor may reappoint a public member to
19 the board.

20 **Sec. 41.42.030. Quorum of board; chair; meetings.** (a) A majority of the
21 members constitute a quorum for organizing the board, conducting its business, and
22 exercising the powers of the corporation. The board shall elect a chair from among its
23 members at its annual meeting each year. The board shall meet not less than once
24 every three months.

25 (b) The board shall meet at the call of its chair.

26 (c) The board may meet and conduct business by teleconference. A meeting
27 conducted by the board by teleconference has the same legal effect as a meeting in
28 person.

29 (d) AS 44.62.310 - AS 44.62.312 do not apply to meetings of the corporation.
30 The board shall adopt a policy and procedures for conducting one or more of its
31 meetings in public each year.

Special Committee on Natural Gas Development

6/3 /2006

COMMITTEE ACTION

Bill Number	SB 2003		
Amendment	#4		
Motion	adopt		
<u>Motion by</u>	Bunde		
<u>Objection by</u>	Green		
<u>Removed</u>			
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Kookesh			
Senator B. Stevens			
Senator Stedman			
Senator Bunde			
Senator Olson			
Senator Dyson			
Senator Wilken			
Senator Elton			
Senator Hoffman			
Vice-Chair Green			
Vice-Chair Wagoner			
Chair Seekins			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	Withdrawn		

ADOPTED w/out objection

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2 meeting and send a copy of the minutes to the governor and to the Legislative Budget
3 and Audit Committee after the minutes have been approved by the board. The minutes
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1 (2) the commissioner of transportation and public facilities;

2 (3) five public members appointed by the governor who

3 (A) do not hold any other state or federal office, position, or
4 employment, either elective or appointive, except as a member of the armed
5 forces of either the United States or this state; and

6 (B) have recognized competence and wide experience in one or
7 more of the following:

8 (i) finance, investments, or other business management
9 related fields;

10 (ii) the oil or gas industries.

11 (b) If a member described in (a)(1) or (2) of this section is unable to attend a
12 meeting of the board, the member may, by an instrument in writing filed with the
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20 **Sec. 41.42.030. Quorum of board; chair; meetings.** (a) A majority of the
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25 (b) The board shall meet at the call of its chair.

26 (c) The board may meet and conduct business by teleconference. A meeting
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28 person.

29 (d) AS 44.62.310 - AS 44.62.312 do not apply to meetings of the corporation.
30 The board shall adopt a policy and procedures for conducting one or more of its
31 meetings in public each year.

Amendments
not acted on

SB 2003

Natural Gas Development
COMMITTEE
Amendment # #6
To Bill Number: SB 2003
Sponsor: Dyson
Date: 6/4/06 Logged by: Mindy

24-GS2056A.5
Cook
6/4/06

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR DYSON

TO: SB 2003

1 Page 25, lines 8 - 9:

2 Delete "all or any portion of the amounts"

3 Insert "up to \$5,000,000 of the money"

4

5 Page 25, line 12, following "project.":

6 Insert "The commissioner may loan additional amounts from the fund to the Alaska
7 Natural Gas Pipeline Corporation or to its subsidiaries to assist in the acquisition and
8 financing of an ownership interest in and construction of the project if the loans are first
9 approved by the Legislative Budget and Audit Committee."

Natural Gas Development
COMMITTEE
Amendment # #7
To Bill Number: SB 2003
Sponsor: Dyson
Date: 6/4/06 Logged by: Mindy

24-GS2056A.6
Cook
6/4/06

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR DYSON

TO: SB 2003

1 Page 24 following line 5:

2 Insert new material to read:

3 "Sec. 41.42.980. Transitional provisions. Notwithstanding any other
4 provision in this chapter, until after the legislature authorizes the execution of a
5 contract under AS 43.82.435,

6 (1) the board may not employ more than two individuals;

7 (2) the board or the corporation may not enter into any agreement that
8 has a fiscal effect in excess of \$1,000,000 unless the agreement is first approved by the
9 Legislative Budget and Audit Committee;

10 (3) the board or the corporation may not enter into any agreement with
11 a duration of longer than one year unless the agreement is first approved by the
12 Legislative Budget and Audit Committee; and

13 (4) each agreement with a duration of longer than one year entered into
14 under (3) of this section must include a clause that terminates the contract within one
15 year after the agreement is executed if the legislature has not authorized a contract
16 under AS 43.82.435."

Natural Gas Development
COMMITTEE

Amendment # #8

To Bill Number: SB 2003

Sponsor: Wilken

Date: 4/4/06 Logged by: Mindy

24-GS2056A.7

Cook
6/4/06

AMENDMENT

OFFERED IN THE SENATE

BY SENATOR WILKEN

TO: SB 2003

1 Page 5, line 26, following "A":

2 Insert "member of the board who is attending a meeting by teleconference may not
3 vote on any matter that may have a fiscal effect on the corporation in excess of \$500,000
4 during a fiscal year. Otherwise, a"