

ALASKA LEGISLATURE SPECIAL COMMITTEE/SUBJECT FILES 8672

3124 SCOMM 144: HOUSE SPECIAL COMMITTEE ON OIL & GAS 2005-2006

Federally-Delegated/Approved Programs

- Clean Air Act – Air Permitting Program
 - Construction Permits
 - Operating Permits (Title V)
 - Minor Permits
- Underground Injection Control
 - Class II (oil and gas wastes from downhole)
 - Class I (non-hazardous being analyzed for Alaska assumption as a result of SB 103)
- Coastal Zone Management Act/Alaska Coastal Management Program
- Alaska Water Quality Standards (State in the process of applying for NPDES permit primacy from EPA as a result of SB 110)

Multiple State Agencies, Most with Dozens of Authorizations

ADEC

Commissioner's Office

Division of Health

Division of Air Quality

Division of Water

Division of Spill Prevention and Response

DNR

Commissioner's Office

Office of Project Management and Permitting

Office of Habitat Management and Permitting

Division of Mining, Land and Water

Division of Oil and Gas

Division of Parks and Outdoor Recreation

AOGCC

Alaska State Historic Preservation Office

ADF&G

Alaska Coastal Management Program

Summary and Issues

- Provides a mechanism to ensure responsible future development in coastal zone areas
- Provides additional input into permitting processes particularly through review of projects with respect to conformity with district enforceable policies
- Provides input to OCS activities
- ACMP has been the only mechanism to coordinate permitting of projects requiring multiple permits (now this is done through DNR/OPMP)
- Importance of A and B List (HB 191 mandated expansion)

What is the ABC List?

- The ABC List is a list of most federal and state permits and activities authorized under those permits classified according to whether a consistency review is required or not for those particular activities and the permits that authorize them.
- No consistency review for A and B List activities – expedited permitting
- A List – Categorically Consistent
- B List – General Concurrence Determination (standard stipulations)
- C List – Individual Consistency Review
- HB 191 mandates expansion of A and B (AOGA has proposal).

Alaska Coastal Management Program

A-List Examples (ADNR/DOG)

Lease Operation Approval in the **North Slope Borough** for the following activities:

1. Winter-season *cable trenchments* when the vegetative mat is replaced
2. Pipelines installed on *existing vertical support members*
3. *Gravel placements* within the inside perimeter of pads
4. Temporary (one year or less) *placements of camps* or equipment at existing pads
5. Installation and winter-season placement of *temporary snow fences*
6. *Installation of liners* inside the berm of existing, previously utilized reserve pits
7. *Clean-up activities* on existing pads
8. On-pad placement of light poles, railings, electrical towers/poles, modules and associated oil and gas buildings

Alaska Coastal Management Program

B-List Examples Applicable to the Oil Industry

- GCD-5 Equipment crossing of fish streams
- GCD-5A Low water crossings (TAPS) corridor
- GCD-7 Culvert and bridge installation
- GCD-8 Temporary and permanent water use (100,000 gpd or less)
- GCD-24 Exploration sampling, geologic reconnaissance, and/or small scale drilling
- GCD-25 Winter seismic surveys for oil and gas in the North Slope Borough
- GCD-32 Maintenance and repair activities along the trans-Alaska Pipeline System
- GCD-34 Ice road and ice pad construction in the North Slope Borough
- GCD-36 Training and temporary staging for oil spill response
- GCD-45 Storage of materials at existing pads in the North Slope Borough
- GCD-46 Installation of permanent snow fences, power transmission lines, and light poles
- GCD-47 Construction of pipelines on new VSMs and installation of pig launcher and receiving pads (note: not for major cross-country lines associated with major projects or other non-routine projects)
- GCD-48 Gravel additions of .33 acres or less in the North Slope Borough

Local Programs

- North Slope Borough (NSB) has Title 29 Planning and Zoning Authority
- Land Management Regulations under Title 19 of NSB Code (current 1990, revisions proposed)
- Zoning districts:
 - Barrow (4)
 - Village
 - Conservation (default for most of Borough)
 - Resource Development (grandfathered or rezoning required for new developments in Conservation District)
 - Transportation Corridor (e.g. TAPS)
- Rezoning – recommendation of Planning Commission, approval by Borough Assembly, applicant submits “Master Plan”
- Zoning defines use, activities requiring permits, type of permits required
 - Local authorization required for nearly all activities, even if already approved by State or Federal Government

Permitting for New Resource Development Projects

Identification of Permits Required

Identification of required permits:

- Land owner/manager and jurisdictions
- Location – onshore or offshore, in the coastal zone or outside, wetlands or uplands
- Conceptual scope of the project in terms of potential impacts to media: land, air, water and biota
- Conceptual scope of project in terms of project resource needs (e.g. water and gravel)
- Conceptual scope of the project with respect to site access and transportation needs
- Questionnaire to organization initiating project (similar to CPQ) to identify permit requirements

Examples of Permitting Timeframes*

Small Projects (2 - 4 weeks)	• New modules/skids • VSMs • Cable trenching • In-field ice road
Medium Projects (3 - 6 months)	• Gravel pad expansion • Small, new pads • Pipelines (non-common carrier) • Exploration well • New water source • New gravel source • Contaminated site rehab • Solid waste storage facility
Large Projects (3 - 36 months or more) Note: If an EIS involved, 18-36 months)	• Multiple new pads • New developments • Modification or new emissions (air permit)

* Timeframes are from the submittal of complete application



PIONEER

NATURAL RESOURCES ALASKA

Oooguruk Project

***House Oil & Gas
Special Committee***

Juneau, Alaska

January 31, 2006





Preferred Project Description & Overview

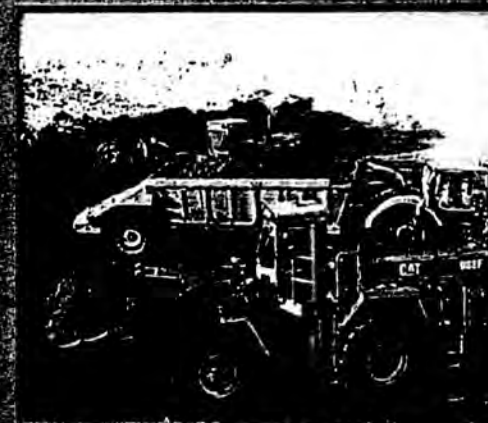
- **Kuparuk & Nuiqsut Reservoir Development**
 - 15,000 to 20,000 bopd peak rate
 - Production processing by KRU in existing facilities
 - Un-manned operation - 24/7 remote control & monitoring
- **Single Offshore Drillsite**
 - 6 Acres in 4.5ft water
 - 40 to 60 Production Wells within Wellhead Modules
- **Subsea 3-Phase "Pipe in Pipe" Flowline**
- **Onshore 7' VSM Flowlines**
- **2 Ac. DS-3H Pad Expansion**
- **Material Source is Mine Site "E" Expansion**



Major Project Construction Components

■ Winter 2006

- Gravel Mining @ Mine Site E
- Ice Road Construction to Support Gravel Haul
- Gravel Placement - Drillsite & DS-3H Expansion



■ Winter 2007

- Ice Road Construction to Support Flowline Installation
- Sea Ice / Floor Trenching
- Flowline Bundle Installation
- Onshore VSM Installation
- Offshore Facility & Equipment Installation



■ 2008 – 2011

- 38 Well Drilling Program

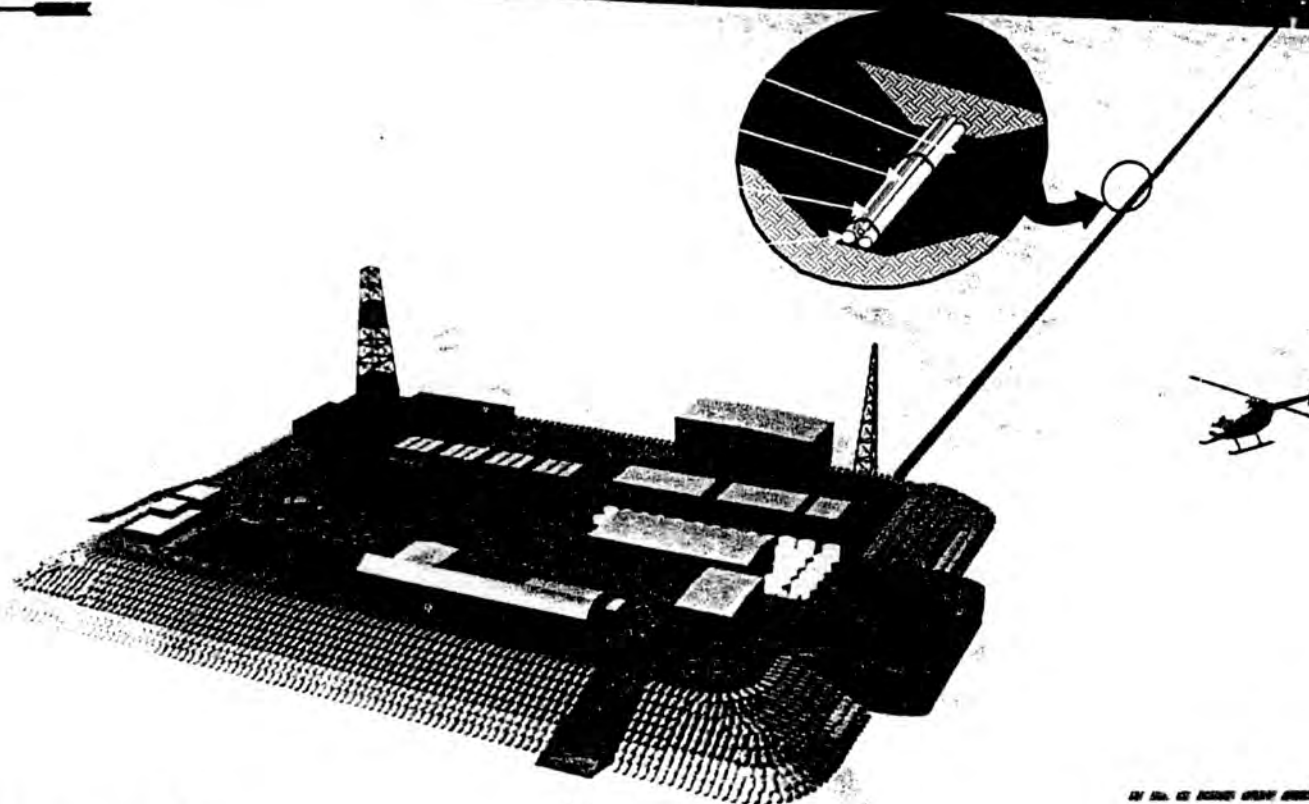


Facility Artist Rendition



OOOGURUK FIELD DEVELOPMENT

TO CONOCOPHILLIPS
DS-3H FLOWLINE



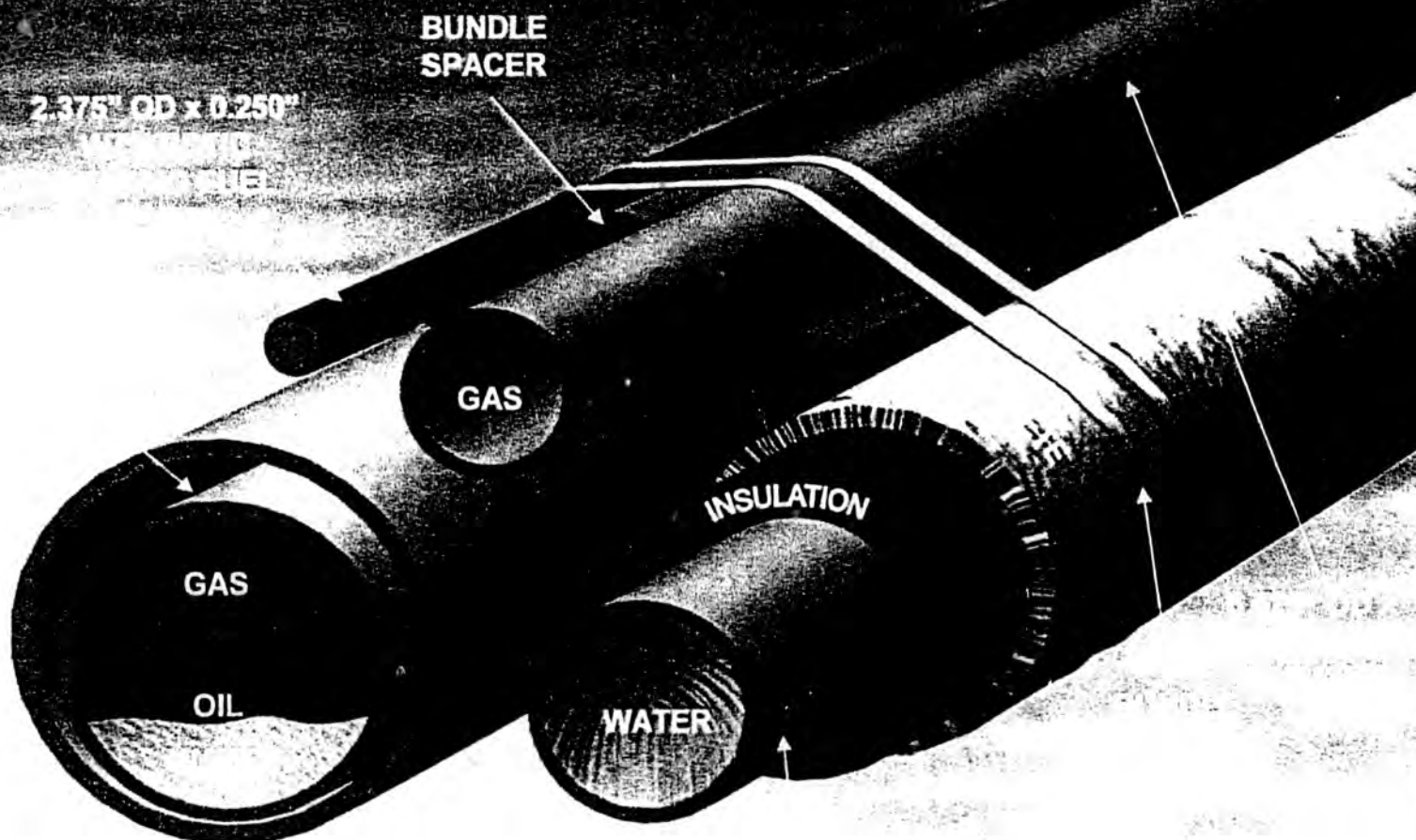
11187602-001 November 14, 2005

FOR THE USE OF CONOCOPHILLIPS

ENGINEERING

PIONEER NATURAL RESOURCES

FLOWLINE BUNDLE CONFIGURATION

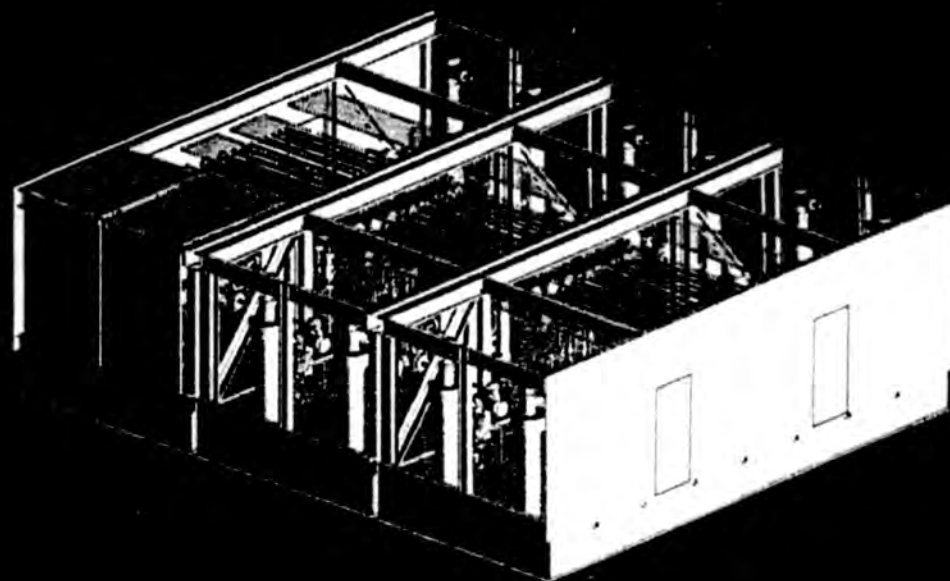
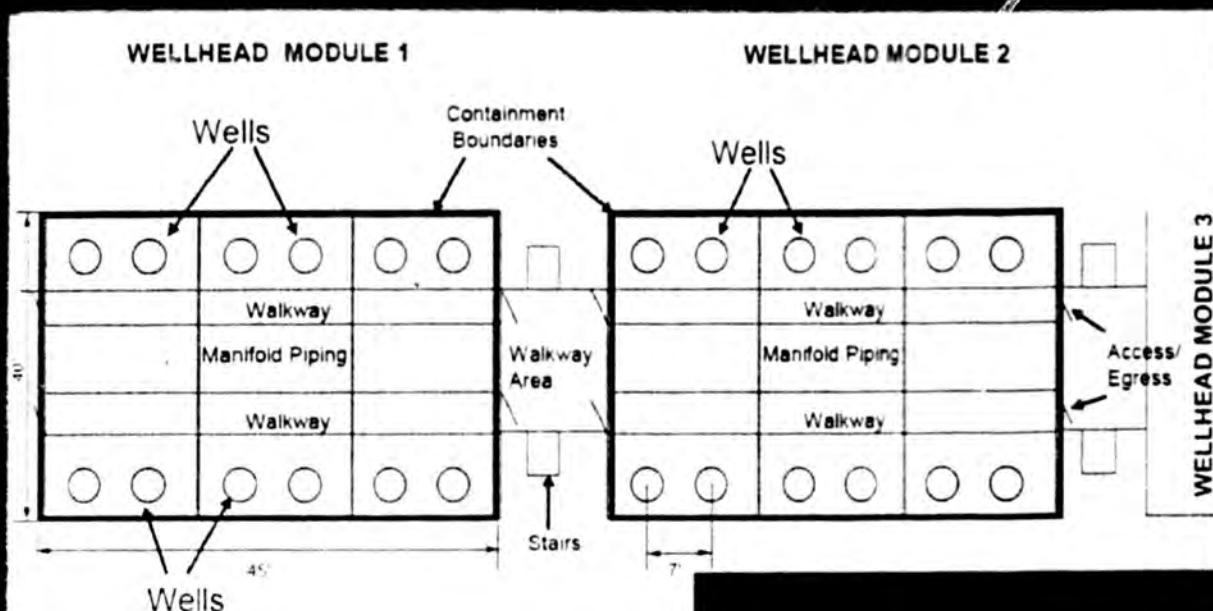


ENGINEERING

11187602-02 November 16, 2005

PIONEER NATURAL RESOURCES

Well Bay Modules (Fluid Containment)



Evaluation Studies & Reports



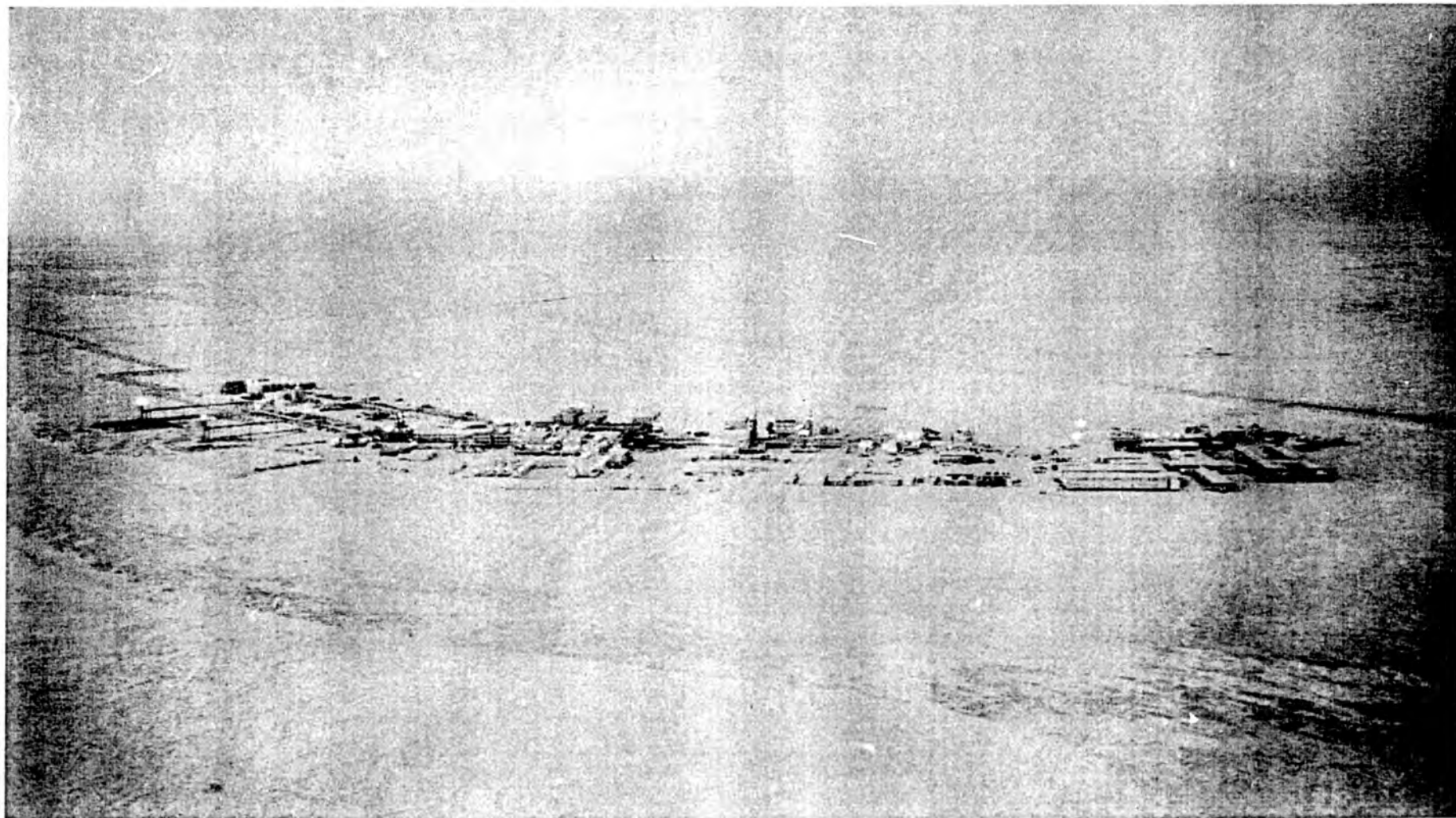
- | | |
|-------------------------------|-----------------------------------|
| 1. Geotechnical | 14. Logistics & Transportation |
| 2. Bathymetric | 15. Avian Avoidance |
| 3. Hydrology | 16. Air Quality & Emissions |
| 4. Wetland, Wildlife, Habitat | 17. Lake Water Source |
| 5. Offshore Habitat | 18. Polar Bear Avoidance |
| 6. Wind & Waves | 19. Drilling Alternatives |
| 7. Coastal Erosion | 20. Slope Protection Design |
| 8. Ice Encroachment | 21. Cumulative Impacts |
| 9. Ice Floe Analysis | 22. Cultural Resources |
| 10. Ice Conditions | 23. Mine Site Rehabilitation |
| 11. Oceanographic Conditions | 24. Endangered Species Assessment |
| 12. Wave Tank Simulation | 25. Spill Analysis |
| 13. Lighting Plan | 26. Traditional Knowledge |
| | 27. C-Plan |

Alpine Satellite Development Project

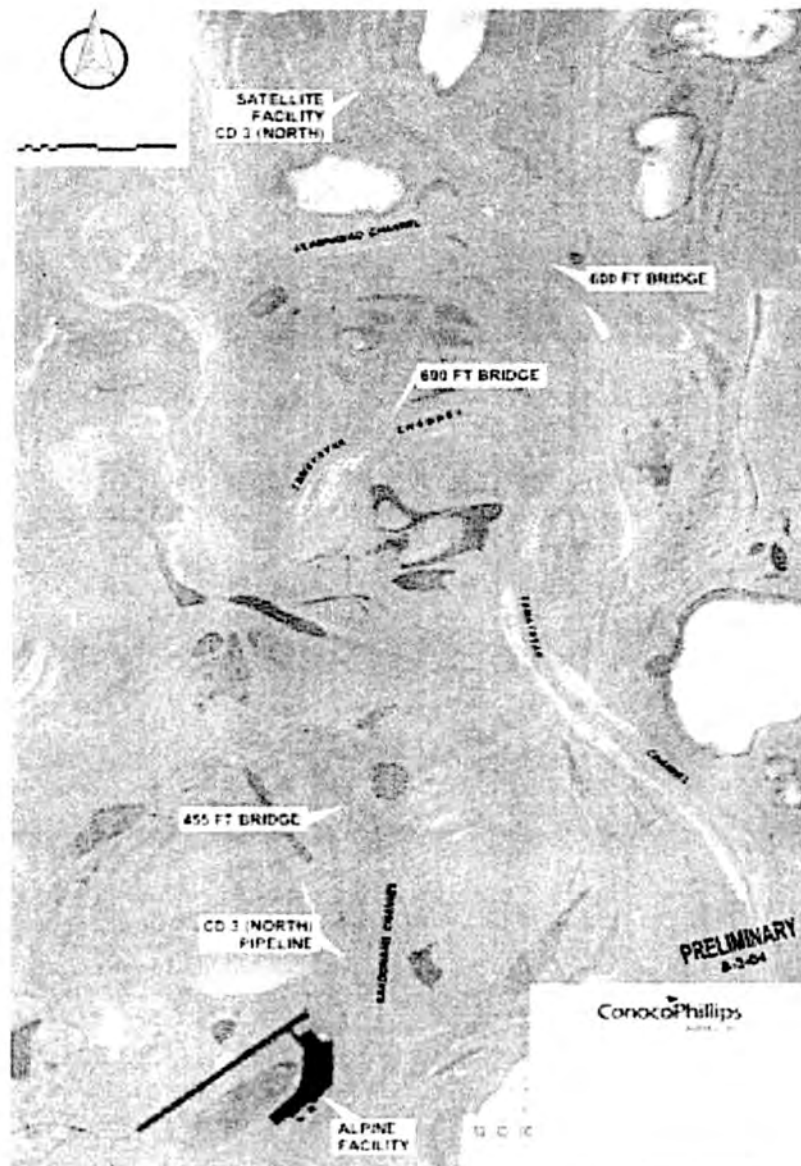


ConocoPhillips

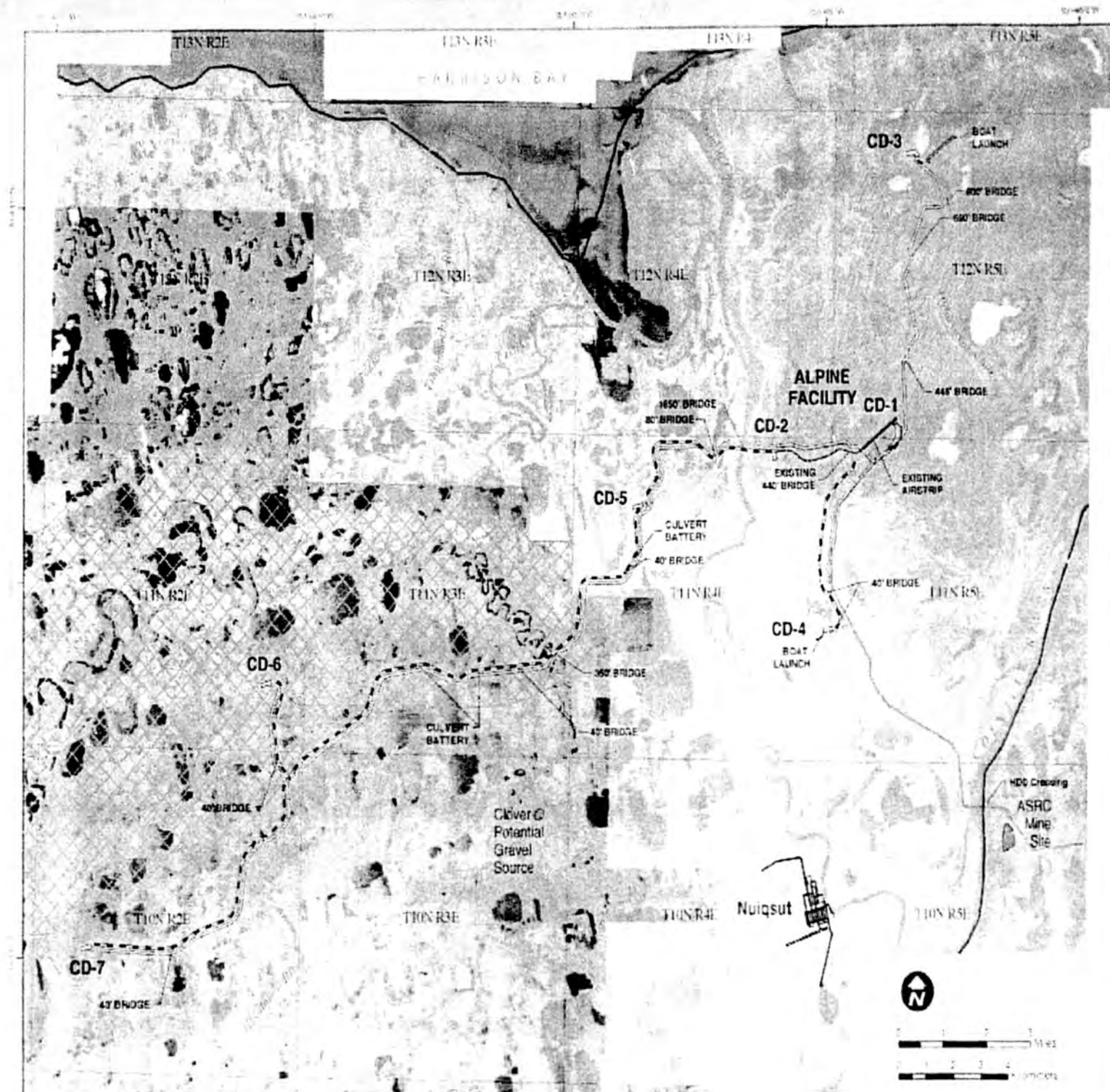
Existing Alpine Facilities (prior to Satellite Development)



Alpine Oilfield and Satellites: CD 3 Overview



- 11.8 acre gravel pad
- Gravel access road between pad and airstrip
- 9.7 acre airstrip
- Minimum 7 foot high aboveground pipelines
- Spill response equipment at drill site and pre-staged at strategic response locations



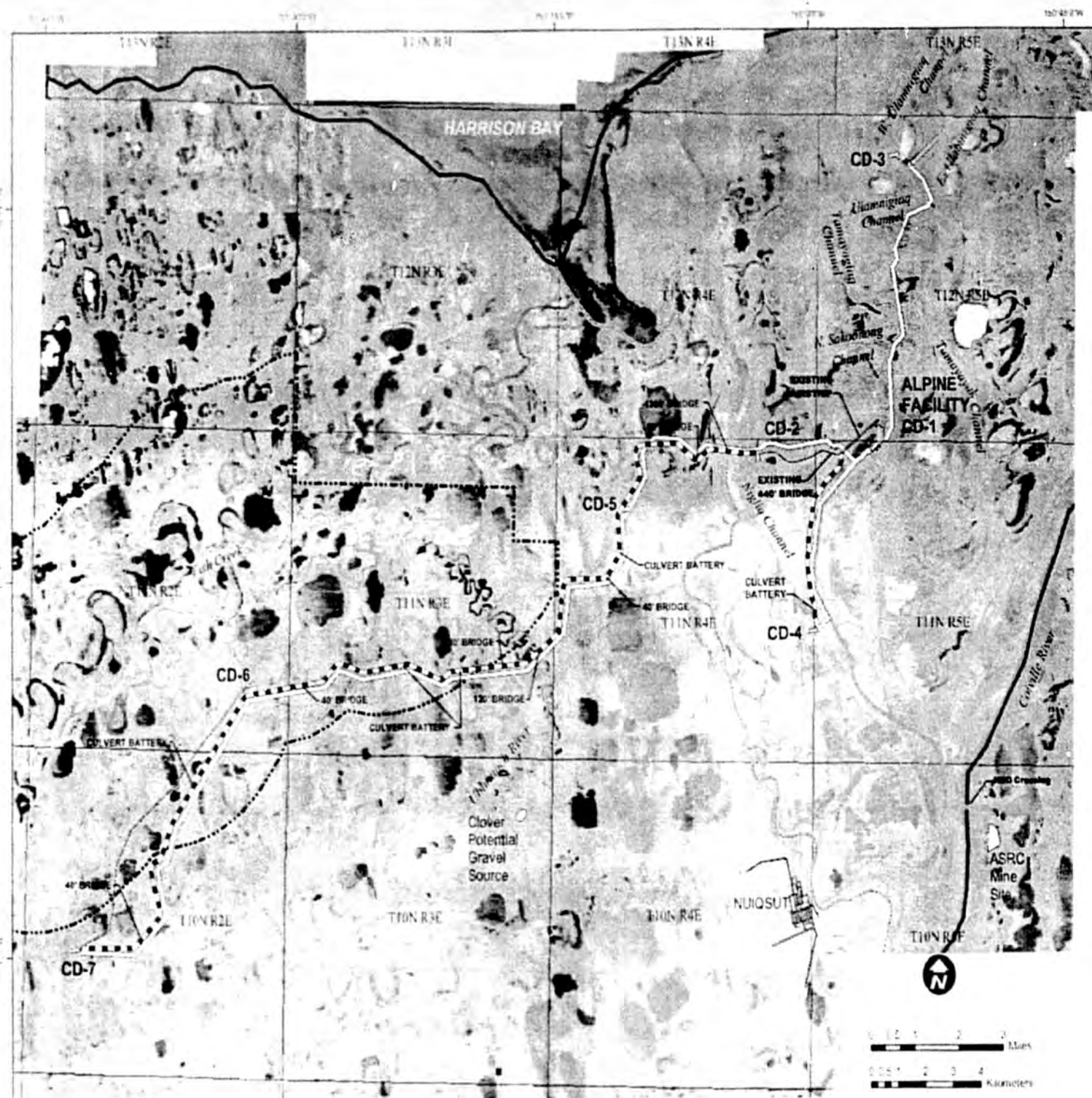
Legend

- Proposed Road
- Proposed Access Road
- Proposed Pipeline Right-of-Way
- Proposed Airfield
- Existing Road
- Existing Infrastructure
- Existing Airfield
- 5-Mile Fish Creek Buffer
- Gravel Source
- Plan Area
- Northeast NPS A Planning Area
- State Land
- Native Land

Notes

1. Locations of facilities and proposed roads and pipelines are approximate.
2. Proposed roads and pipelines are shown larger than actual footprint for visual representation.
3. Right-of-way boundaries are shown 7 feet above the terrain.
4. Horizontal Datum: NAD 83, Coordinate System: Alaska State Plane, Zone 4, Feet.
5. Source: Base map generated from coverage provided by DPA and the NPS.
6. Road and pipeline information from F1142, Draft Conceptual Planning Diagram 4/2/04.

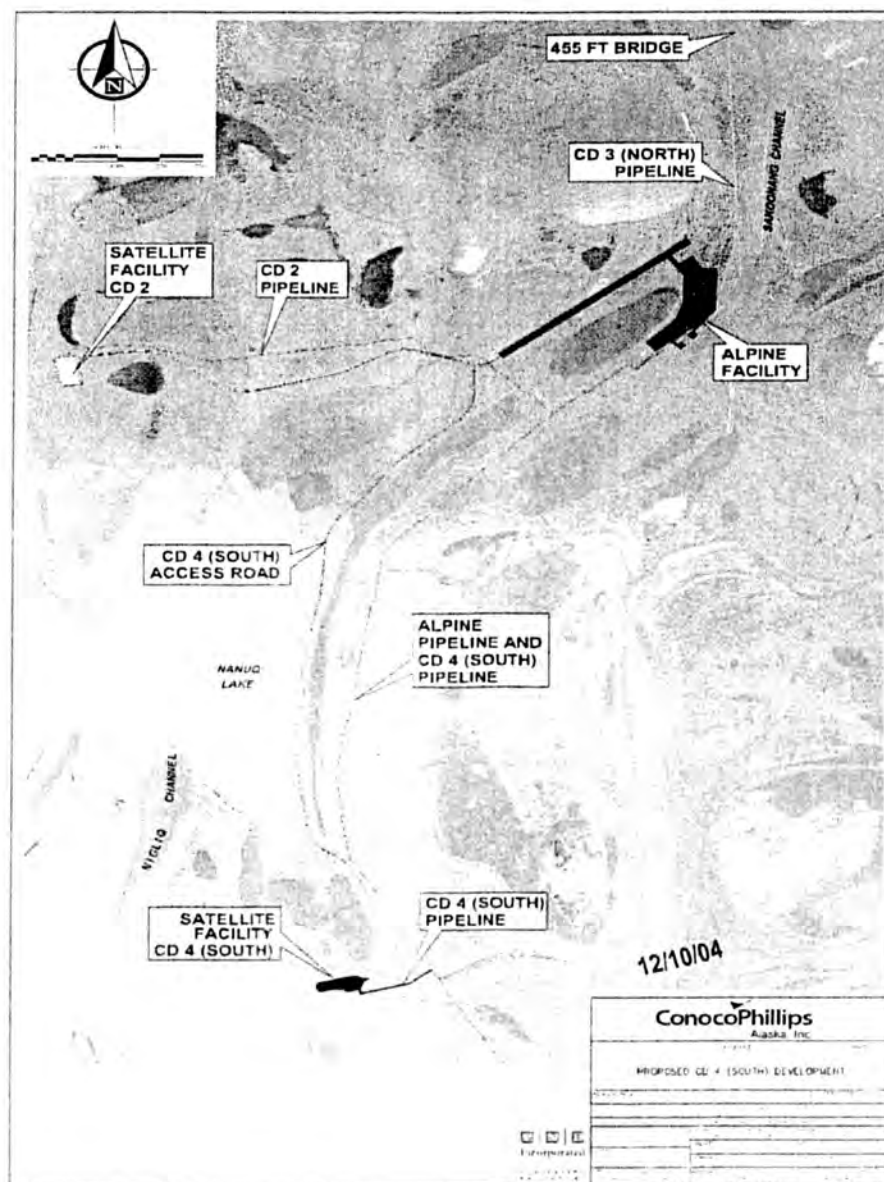
Figure 2-4-6-1
Alternative B Corridor Plan Site Map
Bartlett Development Plan Site Map



Notes

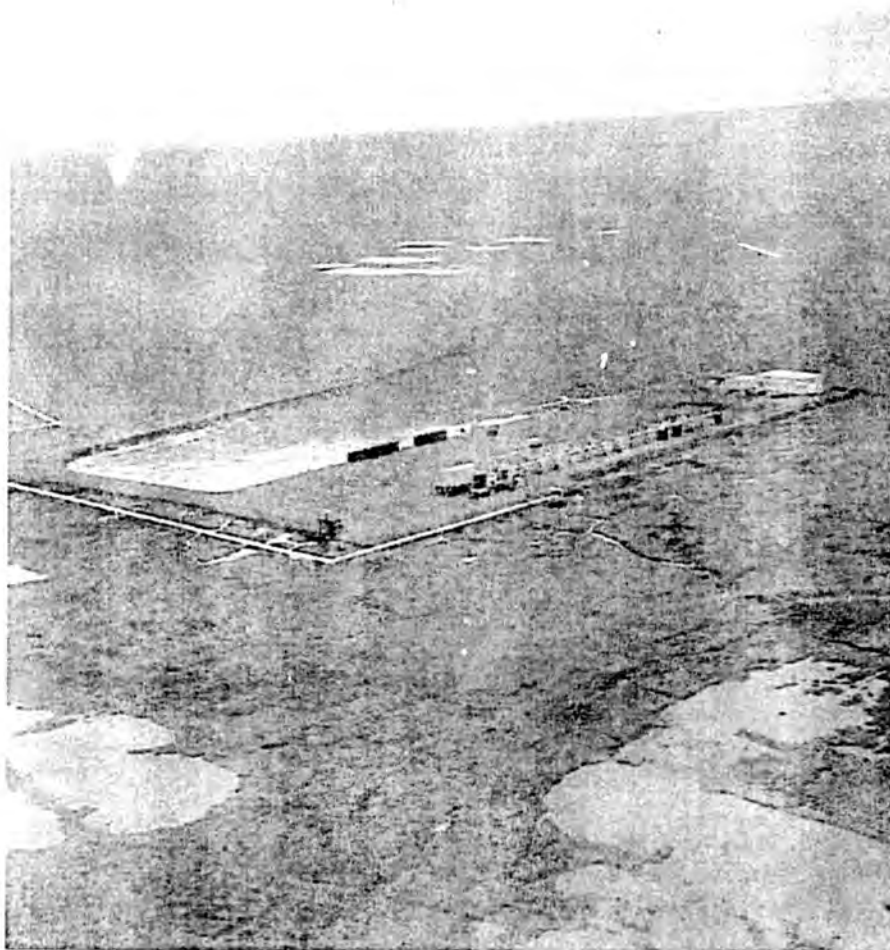
- 1) Locations of localities and routing of roads and pipelines are approximate
- 2) Horizontal Datum NAD 83, Coordinate System Alaska State Plane, Zone 4 Feet
- 3) Source: Basemap generated from coverages provided by CPAI and BLM

Alpine Oilfield and Satellites: CD 4 Overview



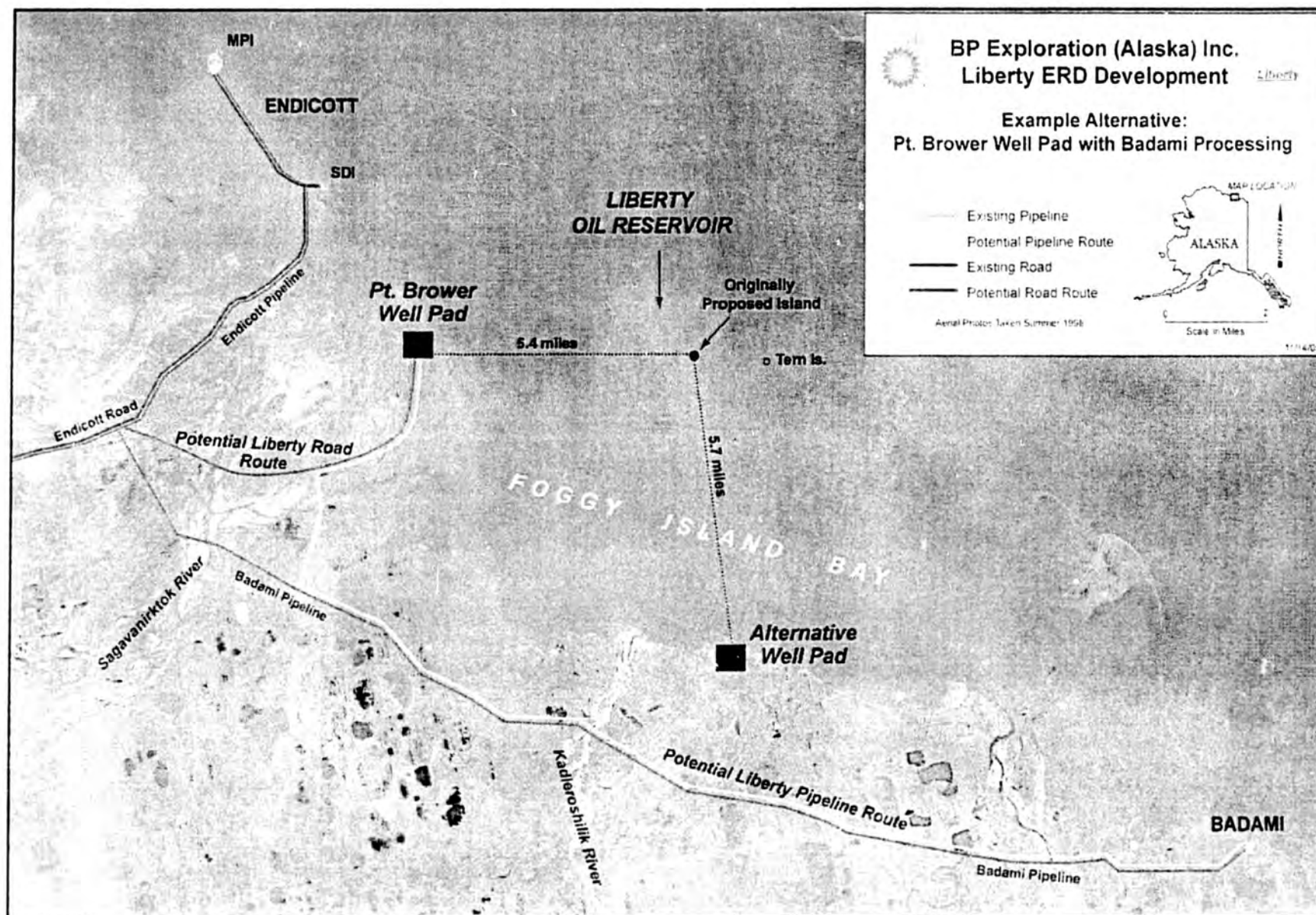
- 10.0 acre gravel pad
- 3.6 miles of gravel road with culverts connecting back to CD-1
- Minimum 7 foot high aboveground pipelines
- Spill response equipment at drill site and pre-staged at strategic response locations

Alpine Oilfield and Satellites: Proposed CD5, CD6, and CD7 Drill Sites



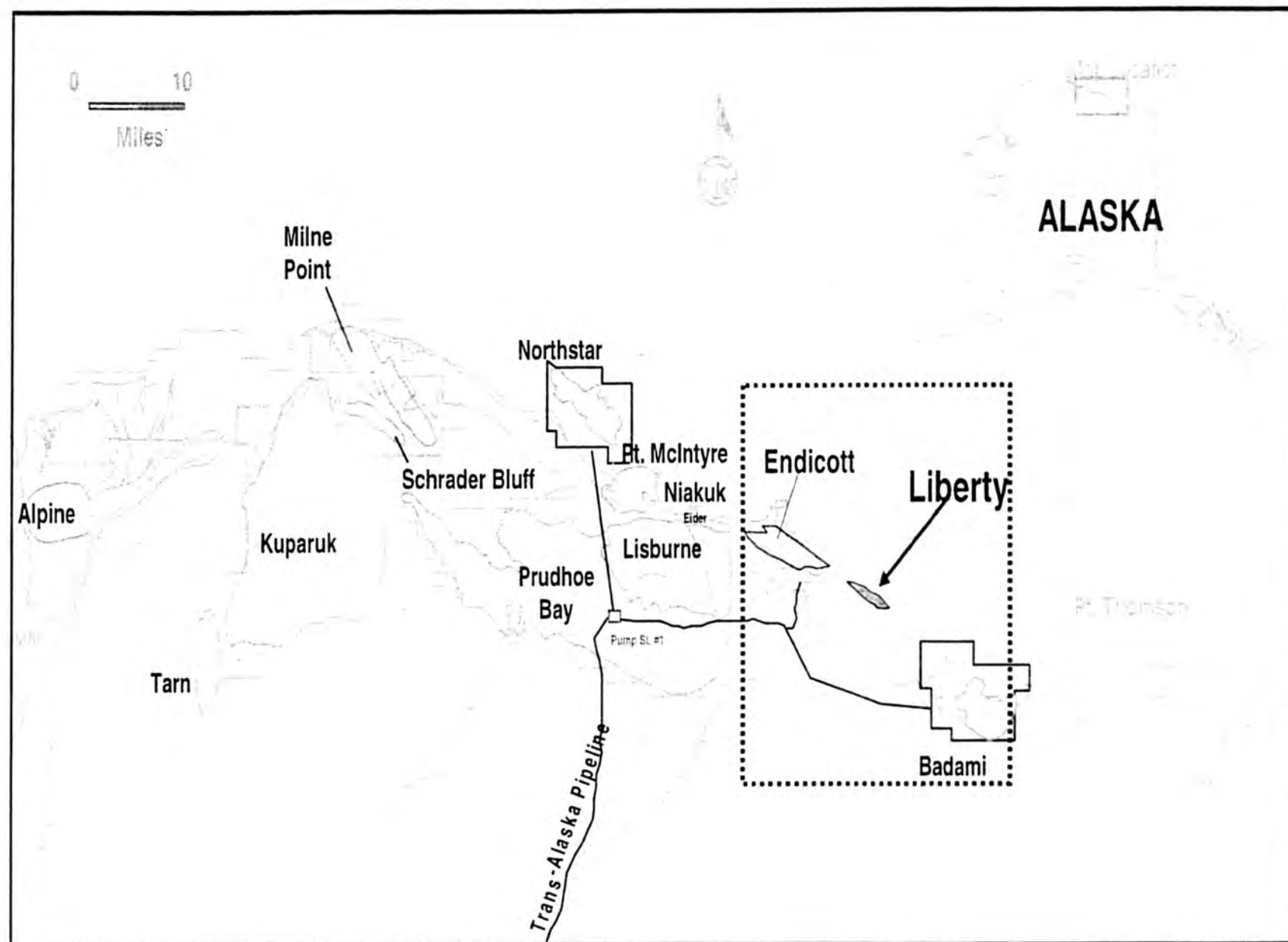
- About 9 – 10 acre pad sizes
- Designed to meet thermal criteria for tundra protection (5.0 feet thick with 2:1 fill slopes)
- Oriented parallel to prevailing wind direction to minimize snow drift
- Produced fluids will be transported to Alpine for processing
- Minimum 7 foot high aboveground pipelines (at VSM)

Status of Liberty Project



Background

- BP Liberty #1 appraisal well success (1997)
- Original concept to “twin” Northstar development
 - Project cancelled in 2002
- Alternate development concepts assessed 2002-2004
- Aug-05 decision to progress as onshore development using Extended Reach Drilling technology – “... it’s the right thing for BP to do at Liberty”



Liberty Project Status

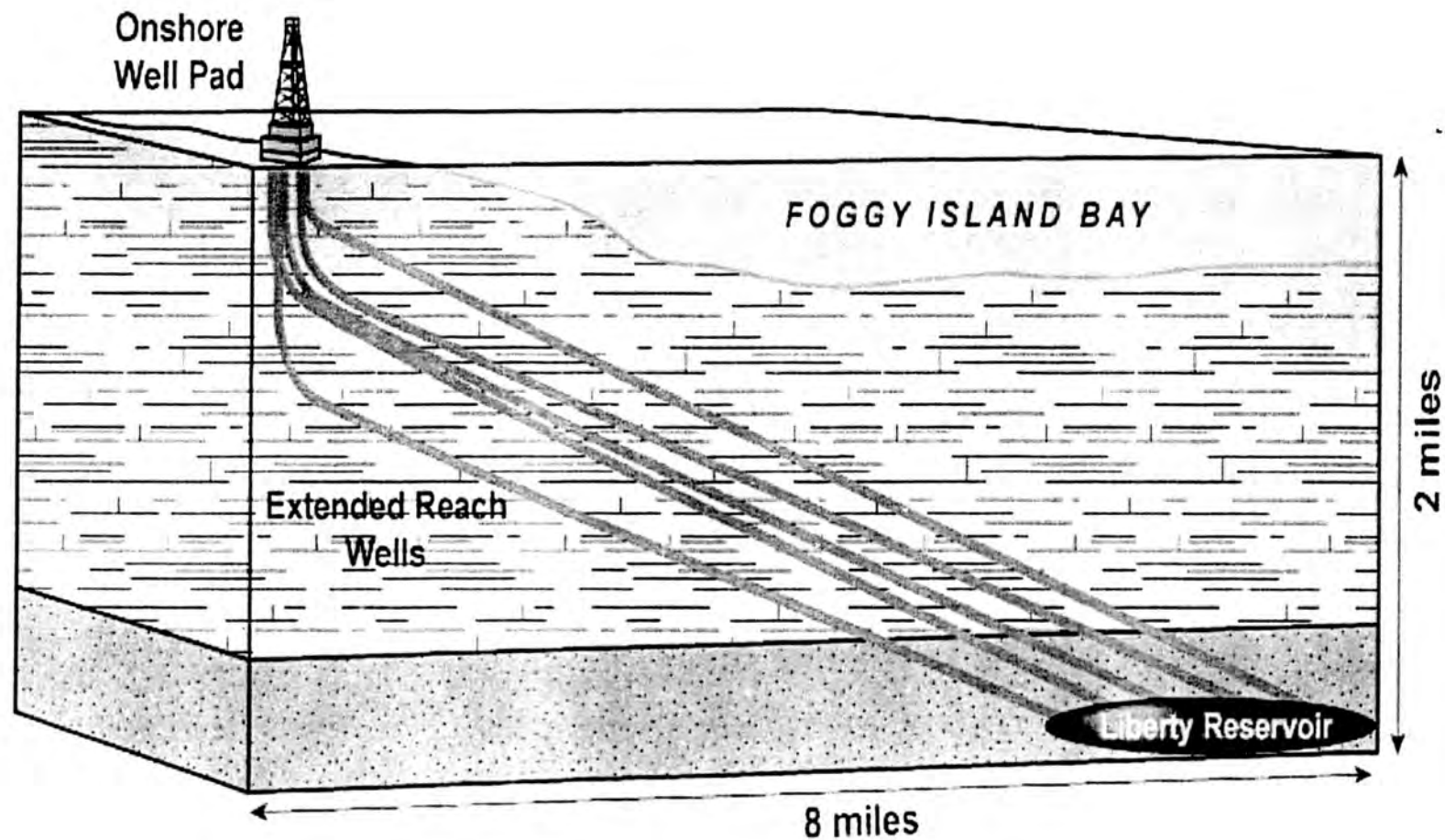
- 2006 Select Phase of MPCP=Conceptual Engineering
- Evaluation of Alternatives and Selection of Development Option
- Design Basis of Selected Development Option
- Permitting Plan
- Pre-application phase – stakeholder consultations, input to design, issues resolution
- 2Q 2007 Supplemental EIS and Submittal of Major Permit Applications

Liberty Project Base Case (Conceptual Engineering)

- Onshore Drilling Pad
- 10-15 production and injection wells (ERD)
- Processing Badami (host facility)
- Three-phase flow pipeline to Badami
- Road to Drilling Pad from Prudhoe Bay Road System
- Oil production exported through existing Badami pipeline



Liberty ERD



Putting the Permitting Puzzle Together
Activities or Project Components Triggering
Federal Reviews, Permits or Authorizations
(Liberty Example)

- “Significant federal action” = EIS (Supplemental for Liberty)
- OCS = MMS Development and Production Plan, Permits to Drill
- Civil works – pad, road, bridge, mine site, VSM’s in wetlands and waters of the U.S. = Corps Sec. 404
- Civil works in navigable waters = Corps Sec. 10, USCG Sec. 9 (Bridge)
- Wastewater discharge, construction runoff, pipeline hydrotesting = EPA NPDES permit (General and/or individual)
- Endangered species in project area (e.g bowhead whale, spectacled eider) = USFWS and NMFS Sec. 7 consultation, Biological Opinion, Jeopardy Determination

Putting the Permitting Puzzle Together
Activities or Project Components Triggering
Federal Reviews, Permits or Authorizations
(Liberty) - 2

- Marine traffic, surveys = NMFS IHA
- Polar bears in project area = USFWS LOA
- Indigenous people in project area = Federal agency consultations with tribal governments
- Non-exempt, non-hazardous disposal well = EPA Class I Industrial well permit (UIC)
- Fuel storage, transfer, pipelines = MMS/EPA/DOT/USCG Spill plan(s)

Putting the Permitting Puzzle Together
Activities or Project Components Triggering
Federally-delegated Reviews, Permits or
Authorizations (Liberty)

- Major stationary emission sources new or modifications (turbines, heaters, drill rig etc.) = ADEC PSD Construction Permit and Title V Operating Permit
- Project location in coastal zone (North Slope Borough) = ADNR/OPMP ACMP Consistency Review
- Exempt waste disposal wells = AOGCC Class IID UIC/Area Injection Order
- Wastewater disposal, discharge of fill wetlands/navigable waters = ADEC Sec. 401 Water Quality Certification

Putting the Permitting Puzzle Together
Activities or Project Components Triggering
State Reviews, Permits or Authorizations (Liberty)

- Construction and operations on State lands = DNR land use permit or lease
- Tundra and other off-road travel, ice roads, temporary camps, miscellaneous activities = ADNR/DMLW Miscellaneous Land Use Permit
- Gravel mining and use = ADNR/DMLW Material Sales Contract
- Water use = ADNR/DMLW Temporary Water Use Permit and Water Rights
- Construction and other activities affecting fish streams = ADNR/OHMP Title 41 Permit
- Fuel storage, transfer, pipelines = ADEC Oil Discharge Prevention and Contingency Plan

Putting the Permitting Puzzle Together
Activities or Project Components Triggering Local
(North Slope Borough)
Reviews, Permits or Authorizations
(North Slope Oil and Gas) - 2

- Construction and Operations in North Slope Borough = NSB Rezoning and Master Plan (Title 19 Land Management Regulations)

Questions Oil Companies New to Alaska Want to Know

- 1) How long does it take to permit a project?
- 2) How much does it cost?
- 3) Is there a transparent permitting system?
- 4) How complicated is the permitting system?
- 5) How subjective is the permitting system?
- 6) What are the major issues driving permit approvals?
- 7) Who should I talk to?
- 8) What permits do I need?



Alaska Oil & Gas Association

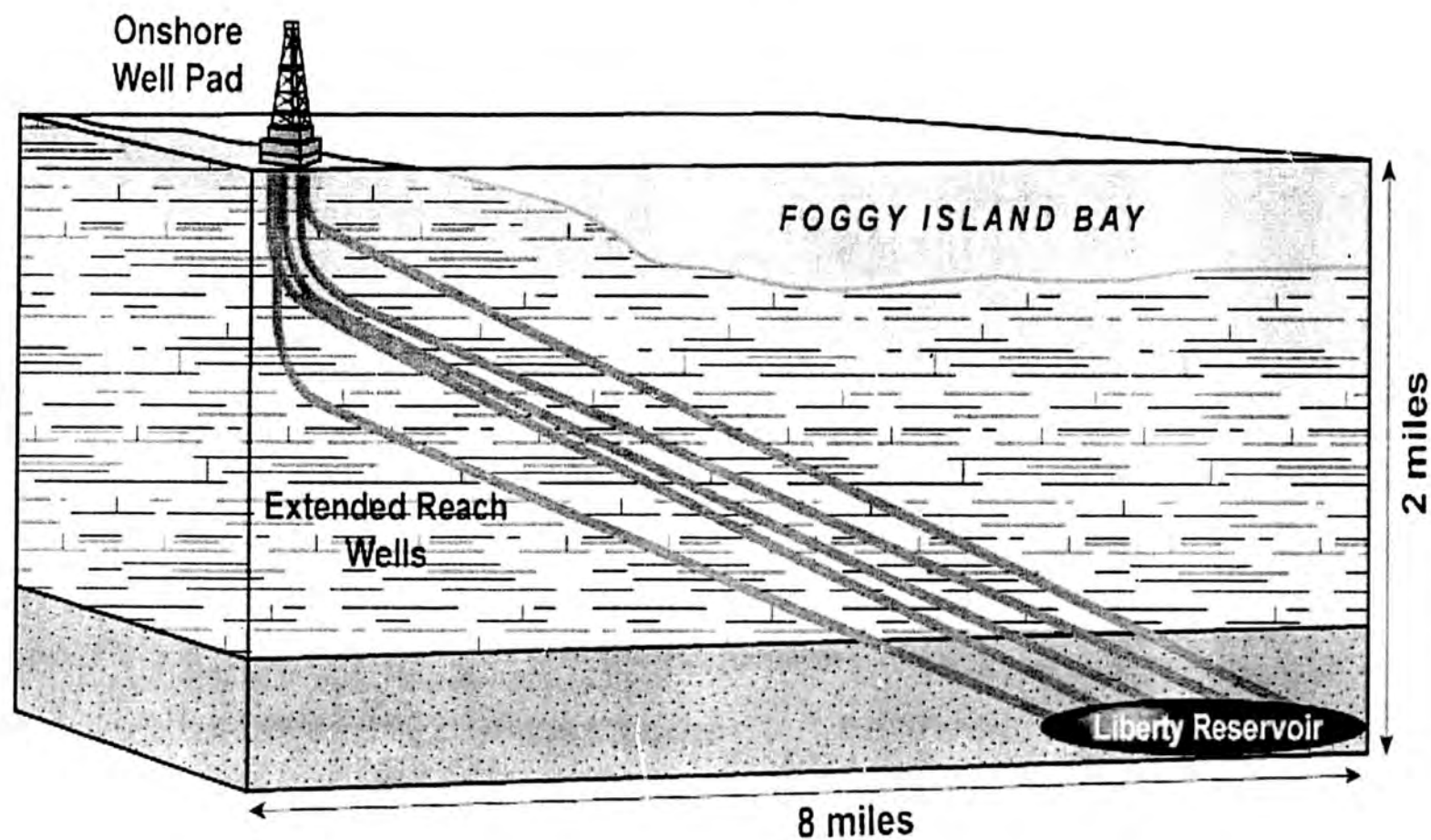
121 W. Fireweed Lane, Suite 207

Anchorage, Alaska 99503-2035

Phone: (907)272-1481 Fax: (907)279-8114



Liberty ERD



Putting the Permitting Puzzle Together
Activities or Project Components Triggering
Federal Reviews, Permits or Authorizations
(Liberty Example)

- “Significant federal action” = EIS (Supplemental for Liberty)
- OCS = MMS Development and Production Plan, Permits to Drill
- Civil works – pad, road, bridge, mine site, VSM’s in wetlands and waters of the U.S. = Corps Sec. 404
- Civil works in navigable waters = Corps Sec. 10, USCG Sec. 9 (Bridge)
- Wastewater discharge, construction runoff, pipeline hydrotesting = EPA NPDES permit (General and/or individual)
- Endangered species in project area (e.g bowhead whale, spectacled eider) = USFWS and NMFS Sec. 7 consultation, Biological Opinion, Jeopardy Determination

Putting the Permitting Puzzle Together
Activities or Project Components Triggering
Federal Reviews, Permits or Authorizations
(Liberty) - 2

- Marine traffic, surveys = NMFS IHA
- Polar bears in project area = USFWS LOA
- Indigenous people in project area = Federal agency consultations with tribal governments
- Non-exempt, non-hazardous disposal well = EPA Class I Industrial well permit (UIC)
- Fuel storage, transfer, pipelines = MMS/EPA/DOT/USCG Spill plan(s)

Putting the Permitting Puzzle Together
Activities or Project Components Triggering
Federally-delegated Reviews, Permits or
Authorizations (Liberty)

- Major stationary emission sources new or modifications (turbines, heaters, drill rig etc.) = ADEC PSD Construction Permit and Title V Operating Permit
- Project location in coastal zone (North Slope Borough) = ADNR/OPMP ACMP Consistency Review
- Exempt waste disposal wells = AOGCC Class IID UIC/Area Injection Order
- Wastewater disposal, discharge of fill wetlands/navigable waters = ADEC Sec. 401 Water Quality Certification

Putting the Permitting Puzzle Together
Activities or Project Components Triggering
State Reviews, Permits or Authorizations (Liberty)

- Construction and operations on State lands = DNR land use permit or lease
- Tundra and other off-road travel, ice roads, temporary camps, miscellaneous activities = ADNR/DMLW Miscellaneous Land Use Permit
- Gravel mining and use = ADNR/DMLW Material Sales Contract
- Water use = ADNR/DMLW Temporary Water Use Permit and Water Rights
- Construction and other activities affecting fish streams = ADNR/OHMP Title 41 Permit
- Fuel storage, transfer, pipelines = ADEC Oil Discharge Prevention and Contingency Plan

Putting the Permitting Puzzle Together
Activities or Project Components Triggering Local
(North Slope Borough)
Reviews, Permits or Authorizations
(North Slope Oil and Gas) - 2

- Construction and Operations in North Slope Borough = NSB Rezoning and Master Plan (Title 19 Land Management Regulations)

Questions Oil Companies New to Alaska Want to Know

- 1) How long does it take to permit a project?
- 2) How much does it cost?
- 3) Is there a transparent permitting system?
- 4) How complicated is the permitting system?
- 5) How subjective is the permitting system?
- 6) What are the major issues driving permit approvals?
- 7) Who should I talk to?
- 8) What permits do I need?



Alaska Oil & Gas Association

121 W. Fireweed Lane, Suite 207

Anchorage, Alaska 99503-2035

Phone: (907)272-1481 Fax: (907)279-8114



Celebrating 40 Years

A Promise Kept

Alaska is a much different place since the first major oil discovery at Swanson River in 1957. That discovery was viewed by the U.S. Congress and the people of Alaska as the promise of a secure economic base – and Statehood was granted in 1959. With the discovery of Prudhoe Bay and the building of the Trans Alaska Pipeline, oil and gas development became the economic linchpin for Alaska's present and future.

The history of the oil and gas industry and the State of Alaska is the story of huge risks taken, incredible challenges met and the promise kept to provide a secure economic base for Alaska and its people.

From 1959 to today, revenues from oil and gas development continue to provide thousands of jobs; finance schools, roads, harbors and rural airports; support urban and rural community growth, health and safety; touch every Alaskan directly through the Permanent Fund dividend; and fund a secure basis for Alaska's future through the Permanent Fund itself.

The Alaska Oil and Gas Association is honored to celebrate its 40th Anniversary and share the milestones over the years as the state and industry continue our journey. Although we're forty years old, we are far from "Over the Hill" and are looking forward to new opportunities, risks, and challenges – and the continuing promise that oil and gas can provide a secure economic future for Alaska and its people.

1957 - 2006

- 1960 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1961 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1962 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1963 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1964 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1965 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1966 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1967 • **Walter Hickel (R)** elected Governor (1959-1967).

- 1968 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1969 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1970 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1971 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1972 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1973 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1974 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1975 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1976 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1977 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1978 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1979 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1980 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1981 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1982 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1983 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1984 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1985 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1986 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1987 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1988 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1989 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1990 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1991 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1992 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1993 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1994 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1995 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1996 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1997 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1998 • **Walter Hickel (R)** elected Governor (1959-1967).
- 1999 • **Walter Hickel (R)** elected Governor (1959-1967).
- 2000 • **Walter Hickel (R)** elected Governor (1959-1967).
- 2001 • **Walter Hickel (R)** elected Governor (1959-1967).
- 2002 • **Walter Hickel (R)** elected Governor (1959-1967).
- 2003 • **Walter Hickel (R)** elected Governor (1959-1967).
- 2004 • **Walter Hickel (R)** elected Governor (1959-1967).
- 2005 • **Walter Hickel (R)** elected Governor (1959-1967).
- 2006 • **Walter Hickel (R)** elected Governor (1959-1967).

1960 - 1969

1970 - 1979

- 1970 • **William Egan (D)** elected Governor (1970-1974).
- 1971 • **William Egan (D)** elected Governor (1970-1974).
- 1972 • **William Egan (D)** elected Governor (1970-1974).
- 1973 • **William Egan (D)** elected Governor (1970-1974).
- 1974 • **William Egan (D)** elected Governor (1970-1974).
- 1975 • **William Egan (D)** elected Governor (1970-1974).
- 1976 • **William Egan (D)** elected Governor (1970-1974).
- 1977 • **William Egan (D)** elected Governor (1970-1974).
- 1978 • **William Egan (D)** elected Governor (1970-1974).
- 1979 • **William Egan (D)** elected Governor (1970-1974).

- 1970 • **Alaskans pass constitutional amendment creating the Permanent Fund.**
- 1971 • **First federal offshore lease sale (OCS) held in Alaska (Gulf of Alaska).**
- 1972 • **TAPS complete; largest project ever constructed with total workforce of 70,000, final costs of \$8 billion.**
- 1973 • **Prudhoe Bay production begins; projected 9.6 billion total recoverable reserves.**
- 1974 • **Earth Resources Co. (now Flint Hills) refinery comes on-line in North Pole.**
- 1975 • **Governor Hammond (R) re-elected (1974-1978).**
- 1976 • **Endicott discovered; first offshore oil field in the U.S. Arctic (production begins 1987).**
- 1977 • **Iranian revolution causes second oil embargo and oil supply shortages.**
- 1978 • **Wellhead price of U.S. crude oil exceeds \$10 per barrel.**
- 1979 • **Joint Federal/State Beaufort Sea lease sale receives bids totaling more than \$1 billion.**
- 1980 • **1,000th tanker leaves Valdez.**
- 1981 • **Petroleum revenue doubles in one year (\$821 million); 73% of unrestricted general fund, which exceeds \$1 billion for first time.**

1980 - 1989

- 1980 • **Walter Hickel (R) elected Governor (1980-1994).**
- 1981 • **GHX I gas handling expansion of CGF (3.8 to 5.2 bcf/d); increasing daily oil production by 100,000 barrels.**
- 1982 • **Persian Gulf War starts; oil prices increase to more than \$20 per barrel.**
- 1983 • **Constitutional Budget Reserve Fund (CBR) created by constitutional amendment.**
- 1984 • **Alaska population: 550,043.**
- 1985 • **Natural gas prices average \$1.46 per bbl.**
- 1986 • **Kuparuk production peaks at 332,000 bpd.**
- 1987 • **Petro Star builds Valdez refinery; last oil-haul refinery in the U.S.**
- 1988 • **Tony Knowles (D) elected Governor (1988-1994).**
- 1989 • **D.S. imports exceed 50% of petroleum supply.**
- 1990 • **CBR receives first deposit; over the next 13 years, CBR will be used 9 times to make up state budget shortfalls.**

1990 - 1999

- 1990 • **GHX II gas handling expansion of CGF (5.2 to 7.5 bcf/d); increasing ultimate recovery by 400,000 barrels.**
- 1991 • **\$175 million investment in Kuparuk enhanced recovery project; recovery increased by 200 million barrels.**
- 1992 • **Gas production in Cook Inlet peaks at 223 bcf/year.**
- 1993 • **20th anniversary of TAPS.**
- 1994 • **Governor Knowles (D) re-elected (1994-2002).**
- 1995 • **State institutes Alaskawide leasing program.**
- 1996 • **Miscible Injectants (MI) project adds to the Prudhoe Bay's gas handling capacity (7.5 to 9 bcf/d).**
- 1997 • **First BLM lease sale in National Petroleum Reserve-Alaska (NPR-A) since the 1960's.**
- 1998 • **Continued technological advancements lead to 80% reduction in environmental footprint.**
- 1999 • **Oil prices fall to \$12 per barrel; unrestricted general fund falls to 20-year low of \$1.3 billion.**
- 2000 • **Petroleum revenue drops to under \$1 billion for first time since 1979; record CBR draw of over \$1 billion to balance state budget.**

2000 - 2005

- 2000 • **Alpine begins production; largest offshore oil field discovered in North America in the past decade.**
- 2001 • **Alaska population: 626,932.**
- 2002 • **PFDF reaches all-time high of \$1,963.86.**
- 2003 • **First new platform in 15 years; Osprey installed.**
- 2004 • **25th Anniversary of the Alaska Permanent Fund.**
- 2005 • **Northstar begins production; first production from an offshore island with no road access to shore.**
- 2006 • **Kenai gas-to-liquids demonstration plant opens (\$86 million investment).**
- 2007 • **\$125 million invested by Producers Study Team to evaluate feasibility of construction of natural gas pipeline.**
- 2008 • **Natural gas prices increase almost 300% over a ten-year period to \$5.47 per bbl.**
- 2009 • **Frank Murkowski (R) elected Governor (2009-2014).**
- 2010 • **Alaska renews TAPS right of way for 30 years.**
- 2011 • **Nimrod - largest Cook Inlet gas discovery in 20 years.**

2006

Since the 1957 Swanson River discovery, the State of Alaska has collected over \$72 billion from the oil and gas industry.

More than 34,000 jobs are generated each year in Alaska by the oil and gas industry.

Since the completion of TAPS, petroleum revenues have averaged 84% of the state's unrestricted general fund. Petroleum revenues are projected to be 90% in FY 2007.

The Alaska Permanent Fund, now worth over \$33 billion, was created in 1976 to set aside a portion of oil revenues for future generations.

The oil and gas industry has invested over \$50 billion in North Slope and Cook Inlet infrastructure.

15 billion barrels of oil have been transported through the Trans Alaska Pipeline System (TAPS).

State revenues from the oil and gas industry are projected to reach a record high of \$4 billion in FY 2006.

North Slope production peaked at over 2 million barrels per day (bpd) in 1988 and has declined to about 850,000 bpd. As much as \$60 billion in new investment may be required to slow the decline and develop new fields.

In 1974, construction began on the largest construction project in the world - TAPS. Originally estimated to cost \$900 million to build, it was completed in 1977, with final costs of over \$8 billion.

At 1 million barrels per day production, state revenue increases \$70 million for every \$1 per barrel increase in the price of oil.

The proposed Alaska Natural Gas Pipeline Project, estimated to cost \$20+ billion, will be the largest pipeline project in the world.

Agrium Kenai Nitrogen Operations
 Alyeska Pipeline Service Company
 Anadarko Petroleum Corporation
 BP Exploration (Alaska) Inc.
 Chevron Corporation
 ConocoPhillips Alaska, Inc.
 ExxonMobil Production Company
 Flint Hills Resources, Alaska
 Forest Oil Corporation
 Kerr-McGee Corporation
 Marathon Oil Company
 Petro-Canada (Alaska) Inc.
 Phillips 66
 Shell Natural Resources Alaska, Inc.
 Sinclair Refining Company
 Tesoro Refining Company
 Valero Refining, Inc.

Bill Boycott
 Kevin Hostler
 Mark Hanley
 Steve Marshall
 John Zager
 Jim Bowles
 Richard Owen
 Kevin Radke
 Leonard Gurule
 Keith Jantz
 John Barnes
 Derek Ivoy
 Doug Chapados
 Ken Sheffield
 Rick Box
 Steven Hansen
 Vaughn Vennerberg



SCOMM

144:19



REPRESENTATIVE ERIC CROFT

HB 223—The Gasline Now Act Sponsor Statement

"Build the line or pay the fine"

The Gasline Now Act is a useful tool for guaranteeing construction of a gas pipeline from the North Slope, encouraging exploration for natural gas, and for filling the state's structural budget deficit until that pipeline gets built. HB 223 allows Alaska to negotiate from a position of strength.

In recent years, each of the major North Slope producers has invested billions of dollars in overseas liquefied natural gas projects to bring foreign gas into the U.S., but for 30 years they have been unwilling to invest in an Alaska pipeline. Many people fear that the producers are sitting on Alaska's gas and developing foreign gas first. Delaying the Alaska gasline increases the oil companies' profits, but it hurts American consumers and the Alaskan economy.

The Gasline Now Act charges a fee for storing Alaska's gas in the largest gas fields, and the fee goes away once a pipeline is completed. Once gas is flowing, a company who paid the fee can get their money back as a credit against the severance tax they pay on the natural gas shipped in the line. To qualify for the credit, a producer must commit to sell or ship their gas down the pipeline.

Currently, explorers have little incentive to search for new gas reservoirs because there is no way to get the gas to market. Because HB 223 encourages timely construction of a pipeline, producers will have more reason to search for new gas. The fee only applies to gas in units leased before 2002 that have more than 1 trillion cubic feet of known gas resources, so any new gas finds will not be subject to the fee.

The Gasline Now Act will create a stable fiscal structure for Alaska in the years leading up to the completion of a natural gas pipeline by bringing in around \$900 million a year until the pipeline is built. This money is necessary to pay for the increased demand on Alaska's roads, schools, public safety and other services during the construction phase of the project, and leftover money can be invested to provide a cushion for the state in future economic down years.

HB 223 is an effective means to encourage timely construction of a pipeline, increased exploration for North Slope natural gas, and to bridge the state's fiscal gap between now and the time revenues come in to the state from the sale of North Slope gas. Alaska and Alaskan jobs have been put on hold for too long. The Gasline Now Act puts Alaska's destiny back in Alaska's hands.



FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: HB 223
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
 Title An Act Relating to the Taxation of Natural RDU Taxation and Treasury
Gas Reserves Component Tax Division
 Sponsor Croft, Crawford
 Requester House Committee on Ways and Means Component No. 2476

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	*	*	*	*	*	*

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

CHANGE IN REVENUES ()	1,010,280	1,010,280	1,010,280	1,010,280	1,010,280	1,010,280
-------------------------------	------------------	------------------	------------------	------------------	------------------	------------------

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2006) cost: 0.0

Check 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)

*See note on page 2.

This bill seeks to create a new tax to be levied on Alaska's known gas resources as defined in, and subject to the exemptions of, the bill. Estimates of gas resources have yet to be determined, however, according to the Department of Natural Resources, Division of Oil and Gas 2004 Annual Report, about 33,676 billion cubic feet of natural gas could be subject to the tax under the proposal. The tax would be repealed when the gas on which the tax is levied is transported to market.

Assuming 33,676 billion cubic feet are subject to the tax, a \$.03 tax on each 1,000 cubic feet of natural gas would yield revenues of approximately \$1,010 million per year until the gas is transported to market under conditions specified in the bill. When a gas export project is complete and the gas is marketed,

Prepared by: Robynn Wilson, Michael Williams, and Cherie Nienhuis Phone 269-1019
 Division Tax Division Date/Time 1/4/06 4:00 PM
 Approved by: Tom Boutin, Deputy Commissioner Date 1/6/2006
 Agency Department of Revenue

FISCAL NOTE

STATE OF ALASKA
2006 LEGISLATIVE SESSION

BILL NO. HB 223

ANALYSIS CONTINUATION

lessees will be allowed to claim a credit for certain of the taxes paid under this legislation with the following limitations: (1) In any year, the credit is limited to half of the lessee's production taxes on gas exported from the slope; (2) Taxes paid pursuant to this legislation before the lessee made an irrevocable commitment to either ship or sell the gas do not qualify for the credit; and (3) Any credit not used by 2030 expires.

*Administration costs are difficult to estimate. On its face, it could be a very simple tax to administer, requiring about 1/4 of a tax technician a year and some time from the State Petroleum Property Assessor. The bill specifies that DOR will determine the volume of taxable gas after consultation with the Department of Natural Resources and the Alaska Oil and Gas Conservation Commission. Having three agencies involved in the determination of gas reserve estimates may unduly complicate the already uncertain science of reserve estimation and could result in legal challenges. *The bill specifies that no taxes will be levied on reserves of less than one trillion cubic feet, and there are at least two fields where reserves are estimated to be just about one trillion cubic feet, which could trigger an expensive conflict about whether taxes of \$30 million a year were owed for each field.* Combining this with other potential legal challenges, the defense of the assessment could run very high.

At a minimum, the DOR State Petroleum Property Assessor would need \$100,000 per year for contract expertise and administrative review for the purpose of determining taxable gas volumes. A tax technician at \$14,000 (.25 FTE) per year would also be required. Expenses in the first year of implementation are estimated to be \$50,000 for DOR personnel and \$85,000 for support from the Department of Law in the development and establishment of regulations.

The above costs do not cover expenses incurred as a result of legal challenges.

Once the gas is being marketed, there will be additional costs incurred by the department for the purpose of determining the amount of credit to be applied to production tax liabilities. It is highly unlikely that these costs will be incurred prior to FY2012; therefore, these costs do not appear on this fiscal note.

Alaska State Legislature

House of Representatives



Representative Harry Crawford -- District 21

Representative Eric Croft -- District 25

HB 223—The Gasline Now Act

The Gasline Now Act is a useful tool for encouraging construction of a North Slope gas pipeline by charging a fee to gas producers for not producing Alaska's gas and refusing to ship gas or build a gas pipeline.

Once it's built, the Gasline Now Act goes away.

The fee ends when gas first flows through a pipeline, either an All-Alaska line or the Canadian line, with at least 2.0 billion cubic feet per day (bcfd) from the North Slope to a commercial market.

Any producer can get all of their fees back if they commit to sell or ship gas.

A producer can get a credit for fees paid under the Gasline Now Act if the producer makes a commitment to sell or ship gas down the pipeline that actually gets built.

The credit will be applied against the production tax owed by the producer for gas shipped down the pipeline.

The earlier they commit, the more credit they earn.

The credit is equal to the amount of fees paid from the time the producer makes the commitment to sell or ship until the gasline is built.

The credit will be applied against no more than 50% of the producer's production tax until the year 2030 or until the total amount of credit is repaid, whichever comes first.

A producer can avoid the fees altogether.

Any producer unwilling to ship their gas down a pipeline can relinquish its taxable leases back to the state for re-lease to a producer willing to cooperate in the pipeline process.

The Gasline Now Act will encourage exploration.

The fee only applies to gas in units leased before 2002 that have more than 1 trillion cubic feet (tcf) of known gas resource (Prudhoe Bay and Point Thompson). The fee does not apply to new gas finds regardless of size. Currently, explorers have little incentive to search for gas because there is no way to get any gas to market. HB 223 gives an incentive to build a pipeline that will provide all North Slope producers a way to get gas to market and thereby encourage them to look for more.

The amount of taxable gas is determined with a formula set out by Exxon in 1997 to determine the quantity of marketable gas in a lease. It only includes gas that should be marketed but does not include natural gas liquids shipped down the TAPS pipeline, gas used to power production facilities or gas used for re-injection to enhance oil recovery.

The Gasline Now Act creates a stable fiscal structure for both industry and Alaska

By attaching the credit to a producer's production tax, producers can count on a reduced and stable tax rate until 2030. The credit will smooth any future changes in the severance tax by lessening the blow to producers of future tax increases.

The Gasline Now Act will stabilize Alaska's fiscal situation by bringing in \$850-950 million in gasline revenue starting in 2007 to pay for increased demands on state services during pipeline construction. Money from the Gasline Now Act can be used for new schools, roads and public safety officers and can be invested to provide a cushion for the state in future economic down years.

HB 233 Additional Background

What gas leases would be subject to this tax:

- Traditional natural gas fields, not gas hydrates, coal bed methane, etc.
- Gas in leases more than 10 years old
- Gas in an approved oil and gas unit before January 1, 2002
- Fields larger than 1 trillion cubic feet of known gas resources

What gas leases would not be subject to the tax:

- Any gas not yet discovered or unitized
- Gas consumed as fuel within the oil and gas unit
- Natural gas liquids to be transported via the oil pipeline
- The State's royalty share of gas

Estimate of gas reserves subject to tax

(source: DNR O&G Division 2004 Annual Report)

Kuparuk River Unit	1.15 Tcf
Prudhoe Bay Unit	24.53 Tcf
<u>Point Thomson</u>	<u>8.00 Tcf</u>
Subtotal	33.68 Tcf

Equivalent in Mcf	33,676,000	
Less Royalty Reserves	4,216,000	<i>not taxed in proposed CS(O&G)</i>
Gas in Taxable Leases	29,460,000	
Annual tax per Mcf	\$0.03	
Annual Tax Estimate	\$883,800,000	

Alaska State Legislature

House of Representatives



Representative Harry Crawford -- District 21
Representative Eric Croft -- District 25

HB 223 Gasline Now Act

Details

Section 1. Creates the storage fee.

Sec. 43.58.210. Tax on known gas resources.

- \$0.03 per mcf
- Estimated \$960 million in annual revenue

Sec. 43.58.220. Property subject to tax.

- (a) – The fee applies to “known gas resources” excepting gas described below.
- (b) – The fee does not apply to:
 - gas hydrates
 - Coal bed methane or other non-conventional gas
 - CO₂ or other non-hydrocarbon gas
 - Undiscovered gas within a lease
 - Gas used for fuel to run the facilities on the lease
 - The five year limit prevents a lessee from deducting estimate amounts of gas to be used for fuel for the life of the lease
 - Gas liquids shipped down TAPS.
- (c) – The fee only applies to gas in leases that meet certain criteria.
 - Only gas that has been discovered but not marketed for ten years will be taxed.
 - Gas must be in a lease that was in a state approved unit before 2002 (the fee will not apply to new exploration).
 - Gas must be in a unit with at least 1 trillion cubic feet of gas.

Sec. 43.58.230. Determination of volume of taxable gas.

- (a) – Revenue will consult with DNR and AOGCC to determine the amount of taxable gas each year.
- (b) – If the lessees within a unit can agree on how to allocate the taxable gas, then the Dept. of Revenue will use those allocations.

HB223 Gasline Now Act
Details

- (c) – If the lessees cannot agree to allocations, then Revenue can allocate in one of the following ways:
 - Revenue and lessees come to an allocation agreement
 - Based on gas in place under each specific lease
 - Based on how much gas is left in the unit
 - Based on surface area each lessee hold within the unit
- (d) – Revenue can let DNR or AOGCC allocate the taxable gas

Sec. 43.58.240. Returns and payment of tax.

- (a) through (e) Describes the method of payment and other technicalities of submitting returns and making the fee payments to the state.

Sec. 43.58.250. Regulations.

- Directs the Department of Revenue to adopt regulations to address
 - Preparing lists of property to be taxed,
 - Noticing lessees the amount of gas to be taxed,
 - Procedures for appeal, putting the burden of proof on the appellant, and
 - Certification of the final tax roll and any supplemental tax rolls.

Sec. 43.58.295. Definitions.

- Creates definition of “known gas resources.”
- Defines other terms for the purpose of this act.

Section 2. Creates the credit.

Sec. 43.55.027. Credit against tax as it applies to certain natural gas production.

- (a) –Allows a credit against the lessee’s severance taxes due for the fees charged in the Gasline Now Act.
- (b) –Allows lessees to claim and take the credit.
- (c) –Fees paid under the Gasline Now Act can begin to be repaid after the pipeline is built as long as:
 - (1) the lessee has agreed to sell or ship gas
 - (2) the pipeline they agreed to sell to or ship on is the pipeline that is in operation, and
 - (3) the agreement that made the lessee eligible for the credit is actually the agreement it is shipping under.
- (d) –Defines the total amount of credit allowed and how much can be repaid at a time.
 - (1) The credit is applied against the lessee’s monthly severance tax payment.
 - (2) Each month, the credit can be no more than 50% of the severance owed in that month.

HB223 Gasline Now Act
Details

- (3) The amount of credit allowed as the amount of money a lessee pays to the state after they make a qualifying agreement to ship or sell the gas until the pipeline is built.
- (e) –The credit ends at the end of the year 2030 whether or not all of the fees paid in have been refunded.
- (f) –Conforms the definition of lessee to the other sections of the bill.

Section 3. Termination of the Gasline Now Act.

- The Gasline Now Act fee sections are repealed upon completion of a 2bcf/day gas pipeline or combination of pipelines from the North Slope to either tidewater or the North American natural gas pipeline system.
- The credit provisions are not repealed.

Section 4. Surrender lease option.

- A lessee can avoid paying the fees under the Gasline Now Act for a particular lease if it gives that lease back to the state before the end of the calendar year 2006.

Section 5. Severability.

- This act is severable.

Section 6. Effective Date of the termination of the Gasline Now Act.

- See section 3.

Section 7. Effective date of lease surrender.

- A lessee can surrender its lease immediately upon passage of this act.

Section 8. Effective date of other sections.

- The Gasline Now Act takes effect January 1, 2007 so as to allow lessees time to prepare the shipping or sales agreements that would qualify them for the credit.

Memorandum

TO: House Ways and Means Committee,
Representative Bruce Weyhrauch, Chair

FROM: Representative Eric Croft

DATE: April 26, 2005

RE: HB 223—Re-injection and duty to develop

In yesterday's hearing, Representative Samuels asked two important questions concerning the Gasline Now Act that warrant further explanation.

1. Is gas used for re-injection to enhance oil recovery exempt from the fee?

No. Gas used for re-injection can still be sold at a later date, and there are non-marketable gasses that can be used for maintaining well pressure. The Gasline Now Act bases the determination of the amount of gas subject to the fee on the methodology set out by Exxon in 1997 in a letter to the Alaska Oil and Gas Conservation Commission in which Exxon describes how it determines the amount of "hydrocarbon gas available for major gas sales." In this methodology, non-hydrocarbon gas, mostly carbon dioxide, is not included in the amount of "hydrocarbon gas available for major gas sales." This non-hydrocarbon gas can be successfully used for re-injection to enhance oil recovery and to maintain well pressure and will not be subject to the fee. If a producer chooses instead to use a portion of the "hydrocarbon gas available for major gas sales" for re-injection, then that gas will still be subject to the fee.

2. Is the lessees' duty to *find* or to *develop* resources under lease?

According to oil and gas attorney Spencer Hosie who is under contract with the state, a lease can be terminated not only for a failure to find resources, as Michael Hurley of Conoco Philips stated, but also for failure to develop the resources. To overcome the failure to develop issue, the state can either bring a lawsuit or implement a more direct incentive to get the lessees to develop our gas. Because lawsuits take years to reach a verdict, they are an ineffective means to keep the producers from delaying the gasline. The Gasline Now Act gives the producers an imminent reason to stop delaying its construction, and it helps the state pay for the infrastructure and other necessary services in the build-up to gasline construction.

How the Gasline Now Act affects Alaska's ten year fiscal situation

Fiscal Year	Gasline Now Act revenue	Total Projected Gasline Revenue	Gasline Revenue without Gasline Now Act	Gasline Now credit	Projected Gasline Revenue Less Credit	Other Unrestricted General Purpose Revenue	General Fund Approp.	Total Revenue without Gasline Now Act	Total Revenue with Gasline Now Act	Fiscal Gap without the Gasline Now Act	Fiscal Gap with the Gasline Now Act	Total Annual Benefit of Gasline Now Act
2005	0.0	0.0	0.0	0.0	0.0	2946.9	2720.5	2946.9	2946.9	226.4	226.4	0.0
2006	0.0	0.0	0.0	0.0	0.0	2664.0	2665.0	2664.0	2664.0	(1.0)	(1.0)	0.0
2007	960.0	0.0	0.0	0.0	0.0	2287.7	2665.0	2287.7	3247.7	(377.3)	582.7	960.0
2008	960.0	0.0	0.0	0.0	0.0	1779.5	2665.0	1779.5	2739.5	(885.5)	74.5	960.0
2009	960.0	0.0	0.0	0.0	0.0	1684.4	2665.0	1684.4	2644.4	(980.6)	(20.6)	960.0
2010	960.0	0.0	0.0	0.0	0.0	1615.8	2665.0	1615.8	2575.8	(1049.2)	(89.2)	960.0
2011	960.0	0.0	0.0	0.0	0.0	1543.3	2665.0	1543.3	2503.3	(1121.7)	(161.7)	960.0
2012	0.0	383.0	0.0	(66.0)	317.0	1480.3	2665.0	1480.3	1797.3	(1184.7)	(867.7)	317.0
2013	0.0	864.0	0.0	(148.0)	716.0	1415.7	2665.0	1415.7	2131.7	(1249.3)	(533.3)	716.0
2014	0.0	915.0	0.0	(152.0)	763.0	1418.9	2665.0	1418.9	2181.9	(1246.1)	(483.1)	763.0
2015	0.0	963.0	0.0	(157.0)	806.0	1354.9	2665.0	1354.9	2160.9	(1310.1)	(504.1)	806.0
												0.0
Total	4800.0	3125.0	0.0	(523.0)	2602.0	20191.4	29370.5	20191.4	27593.4	(9179.1)	(1777.1)	7402.0

in millions

Assumes construction of a gas pipeline to be completed in 2012 with passage of the Gasline Now Act

Assumes construction of a gas pipeline to be completed in 2020 without passage of the Gasline Now Act

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

February 24, 2006

SUBJECT: Draft CSHB 223() (Work Order No. 24-LS0037\T)

TO: Representative Eric Groth

FROM: Jack Chenoweth
Assistant Revisor

You have from this office a draft Committee Substitute for House Bill 223(), offered as a response to your request for a measure that is "textually identical" to the recently-submitted initiative identified by the Division of Elections as "GAS2." The bill differs from the initiative in the following respects, although it would be my contention that the variances between the sponsor substitute, if enacted, and the initiative in the form in which it has been filed should not be sufficient to void disqualification of the initiative under the "substantially the same measure" test of article XI, section 4, of the state constitution:

-- in the title clause describing the authorized tax credit, the bill uses the phrase "sale and delivery" (page 1, line 4) where the initiative uses "sale or shipment"; the relevant text provision (proposed AS 43.55.027(c)'s first line) refers to "sale and delivery";

-- again, in the title clause, the bill includes (page 1, lines 5 and 6) a clause containing reference to the "collection, handling, and use of disputed revenue derived from the tax"; the initiative omits the material;

-- the last clause of the title in both refers to the Act's effective date; the effective date of the initiative is determined by the first clause of the fourth sentence of article XI, section 6 of the state constitution:

Enactment. . . . The lieutenant governor shall certify the election returns. *An initiated law becomes effective ninety days after certification*, is not subject to veto, and may not be repealed by the legislature within two years of its effective date. It may be amended at any time. . . .

consequently, the initiative's bill sections 8 (contingent effective date of the initiative's section 4), 9 (immediate effective date of certain provisions), and 10 (January 1, 2007, effective date for remainder of the initiative) are, and would surely be treated as,

ineffective provisions; the comparable provisions of the sponsor substitute are based on the initiative's date choices, even though those are ineffective;

-- the text of the provisions added under AS 43.58 by the draft bill and the initiative are congruent except that the section captions of AS 43.58.210 of the bill and the initiative differ: in the sponsor substitute, the reference is to "leases having taxable gas," the phrase actually used in AS 43.58.210(a); in the initiative, the caption refers to "known gas resources," the phrase that appears in the original bill (HB 223); please appreciate that section catchlines (i.e. section headings) are, by statute, not part of the statute law of this state;¹

-- the text of the provisions added under AS 43.55.027 by the draft bill and the initiative are virtually congruent except that,

-- in AS 43.55.027(c)(1)(A), the bill corrects a manifest error in the initiative's reference to "AS 43.48.210";

-- in various places in AS 43.55.027(c), the bill draft substitutes spanned-references that conform to the style of the legislative drafting manual without change of the references' contents and substitutes references to "subparagraph(s)" at places where the initiative incorrectly refers to "paragraph(s)";

-- the bill revises the lead-in verbiage to (c)(1)(B)(i) and (ii) to avoid an unnecessary replication of references to "open season"; and

¹ The operative provisions that make the exclusion are AS 01.05.006 :

Adoption of Alaska Statutes. The bulk formal revision of the laws of Alaska which was authorized by AS 24.20.070 and prepared under the direction of the Alaska Legislative Council and published by The Michie Company, legal publishers, of Charlottesville, Virginia, and titled "Alaska Statutes," as set out in the 47 titles of the Alaska Statutes, *but not including* the table of contents, indexes, citations to Alaska Compiled Laws Annotated, 1949, and session laws, chapter, article, *section*, subsection, and paragraph *headings*, annotations, collateral references, notes, and decisions, is adopted and enacted as the general and permanent law of Alaska.

and AS 01.05.031(b), setting out editorial responsibilities of the revisor of statutes:

(b) The revisor shall edit and revise the laws for consolidation without changing the meaning of any law in the following manner:

...
(2) *change the wording of section* or subsection *titles*, or delete subsection titles, and change or provide new titles for articles, chapters, and titles; . . .

-- the bill, in AS 43.55.027(d), retains a reference to "binding transportation *service* agreement described in (c)(1) because, in fact, that is what (c)(1) describes: the initiative omitted the word "service" in that phrase;

-- the bill sets out, as a separate bill section -- bill section 5 -- the "contingency notification" provision that triggers the repeal of the reserves tax under the sponsor's substitute's bill section 4;² the initiative contains a like provision but sets it out as a separate sentence within the "effective date of repeal and notice" provision of the initiative's bill section 8; separate treatment as set out in the bill conforms to the treatment of this material as described in the legislative drafting manual (Drafting Manual at page 36 and Appendix XXXII);

-- the lease surrender provisions of the respective section 6 of each of the bill and the initiative are the same;

-- the escrow provisions -- section 7 of the sponsor substitute and section 5 of the initiative -- are substantially similar; textually, the draft has been conformed to the initiative even though this section of the initiative is not without problems; the bill omits the word "on" that appears in the first sentence of the initiative ("In an action or appeal brought *on* by one or more taxpayers . . .") and substitutes "cumulated" for the initiative's use of "culminated" in a reference to "interest", both instances of correction of manifest errors; in addition, the sponsor substitute, but not the initiative, retains treatment of the material in subsections rather than setting it all out within one section, and marginally changes the order of the content of the initiative's last sentence;

-- the concluding four bill sections of each measure are not substantially different except that, as earlier noted, section 8 of the initiative includes the "contingency notification" language that appears separately in bill section 5 of the sponsor substitute.

*

In my judgment, the lieutenant governor (and the courts, if judicial review of the decision of the lieutenant governor is sought) should find that the draft Committee Substitute for House Bill 223() constitutes substantially the same measure as the recently-submitted initiative.

Under AS 15.45.210, the lieutenant governor, with the concurrence of the attorney general, is responsible for determining whether an Act of the legislature is substantially the same as a proposed initiative.³ The test of how similar a measure enacted by the

² It is the differing treatment given to the "contingency notification" provision between the sponsor substitute and the initiative that accounts for the additional bill section in CSHB 223().

³ AS 15.45.210 provides:

legislature and an initiative must be for the legislative measure to operate, to invalidate the initiative was set out in *Warren v. Boucher*, 543 P.2d 731 (Alaska 1975). The Warren court noted:

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

Upon reflection we have concluded that the legislature's discretion in this matter is reasonably broad. ...

The court fashioned the following as a general test:

... [i]f in the main the legislative act achieves the same general purpose as the initiative, if the legislative act accomplishes that purpose by means or systems which are fairly comparable, then substantial similarity exists. It is not necessary that the two measures correspond in minor particulars, or even as to all major features, if the subject matter is necessarily complex or requires comprehensive treatment. The broader the reach of the subject matter, the more latitude must be allowed the legislature to vary from the particular features of the initiative.

543 P.2d at 736. Recently, in *State v. Trust the People*, 113 P.3d 613 (Alaska 2005), the court explained the application of the *Warren* decision:

Warren developed a three-part test to determine whether a proposed initiative and legislation are substantially the same: A court must first determine the scope of the subject matter, and afford the legislature greater or lesser latitude depending on whether the subject matter is broad or narrow; next, it must consider whether the general purpose of the legislation is the same as the general purpose of the initiative; and finally it must consider whether the means by which that purpose is effectuated are the same in both the legislation and the initiative.

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

Representative Eric Croft
February 24, 2006
Page 5

Id. at 621. Notwithstanding editorial and textual differences between the two documents, the reserves tax is, I would submit, "necessarily complex" and, in the development of a bill to displace the initiative, the legislature, under the court's discussions, enjoys latitude to vary from the measure that was circulated and submitted. I am reasonably confident that the legislature's passage of CSHB 223() would constitute enactment of "substantially the same measure" so that its passage and becoming law as an Act of the 24th Legislature would void the initiative and displace it from the November 2006 general election ballot.

JBC:lmb:med
06-156.med

Alaska Oil and Gas Association



121 W. Fireweed Lane, Suite 207
Anchorage, Alaska 99503-2035
Phone: (907)272-1481 Fax: (907)279-8114
Judith Brady, Executive Director

Date: March 6, 2006

To: House Special Committee on Oil & Gas

RE: HB 223

The Alaska Oil & Gas Association (AOGA) is a non-profit trade association whose 17 member companies represent the majority of oil and gas exploration, production, transportation, refining and marketing activities in Alaska.

AOGA is strongly opposed to the concept of oil or gas reserve taxes and therefore opposes House Bill 223, which would impose a gas reserve tax on North Slope fields.

HB 223 would create, in terms of monetary impact, one of the most massive new taxes in the United States, and reflects a basic misunderstanding of how mega projects are developed, financed and approved. The \$20 plus billion gas pipeline project is unique in its size, complexity and risk.

HB 223, which is touted as a way of spurring the development of a natural gas pipeline, only adds to the economic risk of this project and the potential of putting the project at risk. The fact is no project can be taxed into existence. A project can be taxed out of existence.

We appreciate your consideration of our comments on HB 223.

Sincerely,

/s/

JUDITH M. BRADY
Executive Director

Testimony Regarding Particular Aspects of HB 223, a
Gas Reserves Tax Bill

Jack Griffin
ConocoPhillips Alaska Inc.

Before the
House Oil and Gas Committee
March 7, 2006

Mr. Chairman, members of the committee:

Good afternoon. I am Jack Griffin, Vice President, External Affairs, for ConocoPhillips Alaska, Inc. Thank you for allowing my company the opportunity to present further testimony on HB 223, a bill described by its sponsors as creating an incentive for companies with rights in certain State oil and gas leases to move forward on developing a North Slope gas project.

Mr. Chairman and members of the committee, ConocoPhillips presented testimony both last year and earlier this year in opposition to this bill. My purpose today is to clarify, perhaps, some confusion regarding the effect this bill would have on ConocoPhillips, a company that not only possesses all of the incentives necessary to move forward on a North Slope gas project, but one that in fact has taken every reasonable step within its power to do so.

Mr. Chairman, as you and the other members of this committee well know, ConocoPhillips has reached an agreement with the Administration on the base fiscal and other terms that we need to move forward on a North Slope gas project. We reached an agreement in principle on October 21, 2005, and worked diligently over the following weeks to resolve outstanding technical and drafting issues. ConocoPhillips now has a deal with the State that it is willing to use as a basis for moving to the next phase of the project.

Our agreement with the State is the culmination of a multi-year effort, following our \$125 million cost study, to move the North Slope gas project to the next phase of development. ConocoPhillips took a leadership role in seeking from you a reauthorization of the Stranded Gas Development Act, which has led directly to our contract with the State; ConocoPhillips took a leadership role in obtaining several critical pieces of federal legislation that will help bring greater predictability and efficiency to the federal permitting process, as well as—we hope—lower the cost of debt for the project; ConocoPhillips took a leadership role in advancing an application to the State under the SGDA; and obviously we have taken a leadership role in crafting—and finalizing—an appropriate fiscal contract for the project.

We believe the time has come to move to the next phase of North Slope gas development. We are ready and willing to take that step.

HB 223, however, undermines our gas development efforts by penalizing ConocoPhillips and other North Slope producers for taking the very steps that the Administration and this legislature have urged us to take to advance the North Slope gas project.

Specifically, and in contrast to testimony previously provided to this committee, there is nothing ConocoPhillips itself can do, under this bill as it is currently written, to avoid imposition of HB 223's new tax, short of surrendering the billions of dollars it has already invested in its leasehold interests at Prudhoe Bay.

At a previous hearing on this bill, it was suggested that ConocoPhillips could avoid this new tax by selling its gas, or by committing its gas to a project under an open season. In fact, that is not the case. This tax is automatic and unavoidable. If we started welding steel and laying pipe tomorrow, we could not avoid it.

Supporters of this new tax have claimed it will be refunded if the North Slope producers move forward with a gas project. We believe this claim is inaccurate and misleading. The amount of ConocoPhillips' obligation is likely to substantially exceed \$200 million per year over the next ten years. Under the proposed legislation, these tax dollars will not be refunded until perhaps ten to twenty-five years in the future, without any allowance for the time value of money. That, coupled with limitations on the amount that can be refunded each month, as well as a final cut-off date for refunds, guarantee that only a fraction of the tax that is paid will actually be refunded.

Indeed, the ConocoPhillips' obligation to pay the tax continues even if a gas project is delayed for reasons beyond its control, such as State or federal inaction. More specifically, the project can not move forward without appropriate State and federal permits, but there is no guaranteed date by which these permits must be issued. In fact, if this bill becomes law, the State will actually have an incentive to delay the project simply to force North Slope producers like ConocoPhillips to continue to pay this punitive tax. It is difficult to imagine a more destructive tax policy for the State to adopt. We urge you to reject it.

In closing, I would like voice our belief that the bill raises additional, significant, legal and policy issues, including issues under both the State and federal constitutions. Obviously we have not tried to address all of those issues in my comments today.

Thank you for considering our views.

Alaska Oil and Gas Association



121 W. Fireweed Lane, Suite 207
Anchorage, Alaska 99503-2035
Phone: (907) 272-1481 Fax: (907) 279-8114

TESTIMONY TO THE HOUSE SPECIAL COMMITTEE ON OIL & GAS

ALASKA OIL AND GAS ASSOCIATION

March 7, 2006

Mr. Chairman and Members of the Committee, good evening. My name is Judy Brady and I am the Executive Director of the Alaska Oil and Gas Association ("AOGA"), a private, nonprofit trade association whose 17 member companies account for the majority of oil and gas exploration, development, production, transportation, refining, and refined-products marketing activities in Alaska.

Thank you for this opportunity to appear before you again this session.

AOGA is strongly opposed to the concept of oil or gas reserve taxes and therefore opposes House Bill 223, which would impose a gas reserve tax on North Slope fields.

HB 223 would create, in terms of monetary impact, one of the most massive new taxes in the United States, and reflects a basic misunderstanding of how mega projects are developed, financed and approved. The \$20 plus billion gas pipeline project is unique in its size, complexity and risk.

HB 223, which is touted as a way of spurring the development of a natural gas pipeline, only adds to the economic risk of this project and the potential of putting the project at risk. The fact is no project can be taxed into existence. A project can be taxed out of existence.

We have been asked if AOGA has reconsidered our opposition to the concept of reserve tax legislation, in light of the fact that an initiative to enact a gas reserves tax has been certified for the 2006 General Election ballot.