FISCAL NOTE

STATE OF ALASKA
2014 LEGISLATIVE SESSION

Bill Version	HB 277
Fiscal Note Number	1
(H) Publish Date	1/24/14

Identifier (file name)	Fund Cap-Large Diameter Pipeline Fund-1-21-14	Dept. Affected	Fund Capitalization
Title	Commercial Production of North Slope Natural Gas	Appropriation	Caps spent as duplicated funds
		Allocation	Large Diameter Natural Gas Pipeline Project Fund
Sponsor	Rules by request of the Governor		
Requester	Governor	OMB Component Number	

Expenditures/Revenues (Thousands of Dollars)

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

	FY15 Appropriation Requested	Included in Governor's FY15 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY15**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1007	I/A Rcpts (Other)							
1061	CIP Rcpts (Other)							
		0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES							

Estimated SUPPLEMENTAL (FY14) operating costs ______ *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY15) costs 83,714.0 (FY14 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No

If yes, by what date are the regulations to be adopted, amended, or repealed? ______ Discuss details in analysis section.

Why this fiscal note differs from previous version (if initial version, please note as such)

N/A, initial version of bill.

Prepared by	Miles Baker, Director of Governmental Relations	Phone	(907) 330-6360
Division	Alaska Gasline Development Corporation	Date/Time	1/20/14 12:00 AM
Approved by	Dan Fauske, President	Date	1/20/2014
Division	Alaska Gasline Development Corporation		

FISCAL NOTE ANALYSIS #1

STATE OF ALASKA **BILL NO. HB 277**
2014 LEGISLATIVE SESSION

Analysis

This fiscal note capitalizes the fund at $83,714.0. The bill has an immediate effective date and thus requires the FY14 capitalization of the fund.

FISCAL NOTE

STATE OF ALASKA
2014 LEGISLATIVE SESSION

Bill Version	HB 277
Fiscal Note Number	2
(H) Publish Date	1/24/14

Identifier (file name)	DCCED-AGDC-AKLNG-1-21-14
Title	Commercial Production of North Slope Natural Gas
Sponsor	Rules by request of the Governor
Requester	Governor
Dept. Affected	mmerce, Community and Economic Developm
Appropriation	Alaska Gasline Development corp.
Allocation	New
OMB Component Number	

Expenditures/Revenues (Thousands of Dollars)

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

	FY15 Appropriation Requested	Included in Governor's FY15 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY15**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Personal Services	410.0		410.0	410.0			
Travel	432.0		432.0				
Services	2,960.0		2,960.0				
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	**3,802.0**	**0.0**	**3,802.0**	**410.0**	**0.0**	**0.0**	**0.0**

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1007	I/A Rcpts (Other)							
1178	temp code (UGF)	3,802.0		3,802.0	410.0			
		3,802.0	**0.0**	**3,802.0**	**410.0**	**0.0**	**0.0**	**0.0**

POSITIONS							
Full-time	**1**		1	1			
Part-time							
Temporary							

CHANGE IN REVENUES							

Estimated SUPPLEMENTAL (FY14) operating costs 700.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY15) costs *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)
FY 14 Capital Request is $83.7 million

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No

If yes, by what date are the regulations to be adopted, amended, or repealed? Discuss details in analysis section.

Why this fiscal note differs from previous version (if initial version, please note as such)

N/A, initial version of bill.

Prepared by	Miles Baker, Director of Governmental Relations	Phone	(907) 330-6360
Division	Alaska Gasline Development Corporation	Date/Time	1/20/14 5:35 PM
Approved by	Dan Fauske, President	Date	1/20/2014
Division	Alaska Gasline Development Corporation		

(Revised 8/16/2013 OMB)

FISCAL NOTE ANALYSIS #2

STATE OF ALASKA **BILL NO. HB 277**
2014 LEGISLATIVE SESSION

Analysis

This bill would authorize the Alaska Gasline Development Corporation (AGDC) to participate in advancing a large-diameter natural gas pipeline project (AKLNG) in addition to the in-state natural gas pipeline project described in AS 31.25.005 (1), commonly known as the Alaska Stand Alone Pipeline (ASAP). In it's current form, the bill does the following:

Authorizes AGDC to develop, finance, construct and operate facilities for natural gas liquefaction and treatment associated with a large-diameter natural gas pipeline (AKLNG) project.

Establishes a new subsidiary corporation within AGDC for the purpose of advancing the corporation's AKLNG efforts. Identifies the composition of the board of directors for the new subsidiary corporation and addresses other administrative issues related to that board.

Establishes a new Large-Diameter Natural Gas Pipeline Project Fund to fund the AGDC's involvement in AKLNG project.

Restricts funds appropriated to the In-State Natural Gas Pipeline Fund (1229) solely for work associated with the ASAP project, and restricts funds appropriated to the new Large-Diameter Natural Gas Pipeline Project Fund to work associated with the large-diameter, AKLNG project.

Operating Costs:
The operating costs associated with AGDC's involvement with the AKLNG project are estimated to be $700.0 for FY 14, $3,802.0 for each of the first two years (FY15 & FY16) and $410.0 for FY17, for a total of $8,714.0. AGDC would draw these funds from the new Large-Diameter Natural Gas Pipeline Project Fund. Operating costs consist of personal services, travel and contractual services associated with negotiating multiple commerical contracts relative to the state's participation in the AKLNG project. The one position shown is for a senior executive level employee with an oil & gas commercial background that will act as the Corporation's chief negotiator for the commercial and legal agreements relating to the AKLNG Project.

Capital Costs:
The capital costs associated with AGDC's involvement in the pre-feed phase of the AKLNG project are estimated to be $75.0 million. The project would begin immediately and those funds would begin to be drawn upon passage of enabling legislation in FY 14. AGDC would draw these funds out of the new Large-Diameter Natural Gas Pipeline Project Fund.

FISCAL NOTE

STATE OF ALASKA
2014 LEGISLATIVE SESSION

Bill Version	HB 277
Fiscal Note Number	3
(H) Publish Date	1/24/14

Identifier (file name)	DNR-NSG-1-21-14	Dept. Affected	Natural Resources
Title	Commercial Production of North Slope Natural Gas	Appropriation	Administration & Support Services
		Allocation	New
Sponsor	Rules by Request of the Governor		
Requester	Governor	OMB Component Number	

Expenditures/Revenues (Thousands of Dollars)

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

	FY15 Appropriation Requested	Included in Governor's FY15 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY15**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Personal Services	1,769.7		1,769.7	***	***	***	***
Travel	102.0		102.0				
Services	7,090.0		7,090.0				
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	**8,961.7**	**0.0**	**8,961.7**	*****	*****	*****	*****

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	8,961.7		8,961.7				
1005	GF/Prgm (DGF)							
1007	I/A Rcpts (Other)							
1156	Rcpt Svcs (DGF)							
	TOTAL	**8,961.7**	**0.0**	**8,961.7**	*****	*****	*****	*****

POSITIONS							
Full-time	**6**		6				
Part-time							
Temporary							

CHANGE IN REVENUES							

Estimated SUPPLEMENTAL (FY14) operating costs 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY15) costs 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes

If yes, by what date are the regulations to be adopted, amended, or repealed? 3/31/2015 Discuss details in analysis section.

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial Version

Prepared by	Esther Tempel, Legislative Liaison	Phone	465-4730
Division	Commissioner's Office	Date/Time	1/20/14 12:30 PM
Approved by	Joe Balash, Commissioner	Date	1/20/2014
Division	Department of Natural Resources		

(Revised 8/16/2013 OMB)

FISCAL NOTE ANALYSIS #3

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 277

Analysis

This bill establishes the framework for state participation in a large natural gas project by giving the Commissioner of the Department of Natural Resources (DNR) the authority to enter into upstream and downstream commercial agreements related to a North Slope natural gas project. It also gives the DNR Commissioner, in consultation with the Commissioner of Revenue, the authority to manage the project services and disposition and sale of tax-as-gas (TAG) gas from the Department of Revenue (DOR).

With passage of this bill, the DNR Commissioner, in consultation with the DOR commissioner, will enter into contractual agreements related to the state's equity position in the project. DNR's role is to make sure that the state's equity participation complements and facilitates the state's royalty and TAG gas marketing efforts. The contracts, equity arrangements, and gas sales agreements will be subject to legislative approval and will define the state's relationship with the parties and potential gas customers during the life of a North Slope natural gas project. Each contract, arrangement, and agreement will be conditioned on continued progress of a North Slope gas project and will establish how value will be shared among the parties and manage the state's exposure to commercial risks.

Most of these agreements will be negotiated during the 12–18 months following passage of this legislation so that the state and the other parties in the project can be in a position to commit to the Front-End Engineering Design (FEED) phase. This pre-FEED work will provide the state with the information necessary to make the investment decision to enter into FEED. Equity partners will spend more than a billion dollars during FEED.

With the rights and obligations defined in the agreements, DNR will be able to structure its royalty and TAG gas marketing efforts. The marketing organization may include the potential utilization of a marketing subsidiary of AGDC or may leverage the Producers marketing organizations and expertise, per Article 8.3 of the Heads of Agreement (HOA), resulting in a smaller state organization than might otherwise be required.

The DNR commissioner will need the support, expertise, and involvement of a variety of experts to inform the state's decisions, including:

- When the state takes its royalty and TAG gas, it will become more aligned with the North Slope gas producers than has ever been the case historically. They will enter into production offtake agreements and gas balancing agreements. The DNR Commissioner may modify the state's oil and gas lease terms, including modification of the lease royalty rates, treatment of lease net profit share provisions, field costs, and the state's rights to take royalty gas in-value.

- The DNR commissioner will enter agreements to define gas treatment costs, transportation tolls/tariffs, and liquefaction services. These agreements will also be designed to manage capacity and arrange for expansion of the project, if needed, and must accommodate changes in equity ownership. DNR will forge contractual arrangements with the producers and other industry parties participating in the project as well as state entities who may be part of the project initially or who may take over ownership later.

- The marketing of the state's gas will depend on the rights and obligations that will be defined in the agreements. As time progresses, DNR must make decisions about how it will supply royalty and TAG gas to the domestic and international markets. Gas supply agreements are likely to be long-term and may include mechanisms to attract additional investment capital into the project. Planning and design of the marketing organization will occur during the pre-FEED phase.

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 277

Analysis Continued

Allocation: DNR will create a separate allocation code for expenditures related to the commercial production of North Slope natural gas for ease of tracking appropriations.

Expenditures: DNR will create in-house capacity to provide the administration with consistent and well-informed advice throughout the initial negotiations and to manage experts as needed through this process. This team will provide consistent support throughout the pre-FEED phase and will be in place to manage the marketing role. Establishing this capacity now and preserving it as the project develops is essential to facilitate the state's effective participation in the project.

The team will be involved in negotiating, crafting agreements, managing expert consultants at each of the project phases, monitoring the agreements as the project progresses and conditions are met or changed, and preserving and protecting confidential information provided by the state's counterparties.

This team will include a lead expert analyst; four subject matter experts specializing in commercial aspects of upstream, gas treatment and pipeline transportation, liquefaction, and international marketing; and a project assistant responsible for contract management, recordkeeping and administrative support, as follows:
- 1 Lead Expert Analyst (exempt)- $349.8 annual salary and benefits
- 4 Subject Matter Expert Analysts (exempt) - $323.7 annual salary and benefits each (total of $1,294.8)
- 1 Project Assistant (range 20) - $125.1 annual salary and benefits

Total Personal Services: $1,769.7

It is anticipated that the lead expert analyst and four subject matter expert analysts will need to make trips to Asia to conduct market research and outreach. DNR estimates that each will make quarterly trips at an estimated cost of $5.1 per trip. **Total Travel Expenses: $102.0**

Contract services include:
- $4,000.0 for substantial subject matter expertise to support the DNR commissioner and team including deal origination, deal analysis, market monitoring, infrastructure analysis, commercial contracting, financial and credit analysis, risk control and analysis, and imbalance reconciliation
- Reimbursable Service Agreements to the Department of Law: $3,000.0 for legal advice from outside counsel on commercial and financial agreements, transactional negotiations and agreements, federal jurisdictional, statutory and regulatory issues and in-house attorney services ($250.0 per month)
- DOA core service charges, lease space, and office supplies: $15.0 per position ($90.0 for 6 positions)

Total Contract Services: $7,090.0

It is anticipated that the decision to proceed into FEED will take place by the end of FY16. Impacts in FY17 and beyond are indeterminate at this time; however, pre-FEED will help determine the potential costs leading up to the FEED phase.

Revenues: No new revenues from a large gas project would be expected during the timeframe (through FY20) of this fiscal note. Revenues from a North Slope gas project could be realized as soon as FY22.

Regulations: DNR expects it will need to amend its regulations as they pertain to the disposition of royalty oil and gas to include TAG gas.

FISCAL NOTE

STATE OF ALASKA
2014 LEGISLATIVE SESSION

Bill Version	HB 277
Fiscal Note Number	4
(H) Publish Date	1/24/14

Identifier (file name)	DOR-TAX-01-21-14	Dept. Affected	Revenue
Title	Commercial Production of North Slope Natural Gas	Appropriation	Taxation and Treasury
		Allocation	Tax Division
Sponsor	Governor		
Requester	Rules by request of the Governor	OMB Component Number	2476

Expenditures/Revenues (Thousands of Dollars)

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

	FY15 Appropriation Requested	Included in Governor's FY15 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	**FY15**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**
Personal Services							
Travel							
Services	750.0						
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	**750.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	750.0						
1005	GF/Prgm (DGF)							
1007	I/A Rcpts (Other)							
1156	Rcpt Svcs (DGF)							
		750.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

POSITIONS							
Full-time							
Part-time							
Temporary							

CHANGE IN REVENUES	***	***	***	***	***	***	***

Estimated SUPPLEMENTAL (FY14) operating costs ____________ *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY15) costs ____________ *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes

If yes, by what date are the regulations to be adopted, amended, or repealed? 12/31/2015 Discuss details in analysis section.

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial version.

Prepared by	Matt Fonder, Director	Phone	(907) 269-1033
Division	Tax Division	Date/Time	01/14/2014 2:00 p.m.
Approved by	Angela M. Rodell, Commissioner	Date	1/20/2014
Division	Department of Revenue		

(Revised 8/16/2013 OMB)

FISCAL NOTE ANALYSIS #4

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. HB 277

Analysis

Bill Language:
This bill would help the state to move forward as a partner in a large natural gas project, including liquefaction facilities. It gives the Commissioner of DNR, in consultation with the Commissioner of Revenue, the ability to take custody of gas delivered to the state and manage the disposition and sale of that gas. The main tax provision of the bill would allow gas producers to make an irrevocable election to pay their production tax liabilities with gas (tax as gas "TAG") instead of with money.

While the bill itself has numerous sections that affect other departments or corporations in the state, the analysis done for this fiscal note is limited to the tax provisions contained in the bill.

Revenues:
The department is unable to determine the amount of revenue that will be created by this bill in the future. Taxable gas production is not expected until after 2022, so no new revenues from a large gas project would be expected during the timeframe (through FY-20) of this fiscal note.

Expenditures:
The department is currently in the process of implementing its new Tax Revenue Management System (TRMS), for which the legislature appropriated approximately $35 million for during the 2011 session. If this bill passes, we will need to amend the current contract with FAST Enterprises to allow for them to reconfigure TRMS to reflect these tax law changes. DOR estimates that it will incur an additional expense of approximately $500,000 to reconfigure the system.

Regulations:
The department expects it will need to enter into expanded RSA's with the Department of Law to assist in drafting regulations to help the department implement the new law. DOR estimates that it will incur an additional expense of approximately $250,000 to retain the necessary resources to assist with a regulations project of this magnitude.