Introduction to Senate Bill 138 relating to the Commercial Production of North Slope Natural Gas

The recent alignment by parties around a path forward on a large-scale LNG project, and the Alaska Gasline Development Corporation's ("AGDC") preparation for an open season in 2015 for an in-state pipeline, creates an opportunity for a coordinated and collaborative effort.

With parties working together on Alaska's terms, and in Alaskans' interests, the bill relating to the Commercial Production of North Slope Natural Gas will advance a natural gas project that would provide natural gas for Alaskans and markets beyond.

The bill advances a natural gas project to provide gas to Alaskans and markets beyond in a number of important ways.

1. The bill would establish an AGDC subsidiary to pursue state equity interests in a large-diameter natural gas pipeline project and associated facilities.

Commercialization of North Slope natural gas should occur with both in-state needs and export potential in mind. Therefore, the bill would create a subsidiary under the AGDC, utilizing a fund exclusively for a large-diameter natural gas pipeline project, to pursue holding state equity interests in a large-diameter natural gas pipeline project that could include treatment and liquefaction facilities. The bill contemplates a separate, but cooperative effort between AGDC's pursuit of ASAP and the newly created subsidiary's pursuit of the AKLNG project that does not impede the mission of the AGDC to continue to advance the Alaska Stand Alone Pipeline (ASAP) in-state natural gas pipeline project.

2. The bill authorizes the Department of Natural Resources (DNR) to participate in negotiations of contracts and the development of terms for project services and other contracts for the development and implementation of a North Slope natural gas project.

The bill would provide authority for the Commissioner of Natural Resources to enter into short-term commercial agreements to advance the project through the development and implementation phases In addition, it would allow the Commissioner to negotiate terms, subject to legislative approval, for state equity interests in a natural gas project, project services related to a natural gas project, and other contracts for the development and implementation of a North Slope natural gas project. To facilitate negotiations and continuing development activities, confidentiality of information would be maintained. Any contract to be presented to the Legislature for authorization would not be confidential.

3. The bill would authorize DNR to modify certain lease terms on properties that provide gas to any North Slope natural gas project.

Current state oil and gas leases contain terms - such as those that allow the state to switch between taking royalty oil and gas in-kind or in-value – that may hinder the ability of lessees to enter in to long-term contracts for sales of natural gas produced on the North Slope. Under the bill, if a natural gas project sponsor has demonstrated sufficient project commitments, the Commissioner may modify existing leases that commit gas to a natural gas project, with the concurrence of the lessees. Gas committed from these leases, whether through royalty or the production tax, would be subject to the current standards for sale, exchange, or disposal of gas taken in-kind by the state as its royalty share. In addition, and with the concurrence of lessees, the commissioner may also modify existing royalty and net profit share provisions to achieve consistency among leases.

4. The bill would make changes to Alaska's Oil and Gas production tax that will advance the project.

The current tax structure, which imposes a net tax on the annual production tax value of oil and gas, is retained until 2022. The bill introduces a new gross tax levy on gas produced after 2021.

For gas produced after 2021, the tax levy on gas would be 10.5 percent of annual gross value at the point of production. The oil tax levy would remain at 35 percent of net annual production tax value. Most importantly, for leases that have been modified as described above, the bill would allow producers to pay, for gas from modified leases only, production tax on that gas with gas instead of with money, equal to 10.5 percent of the taxable gas production from the modified leases. The name of a producer and the volumes of gas subject to the election to pay tax as gas would be public information.