

## **Developing our Resources, Protecting our Environment**

*“Alaskans are blessed to live in a place with such beauty and diverse natural resources. We are rich with oil and minerals, sport and commercial fisheries, timber and game. Finding a well-balanced blend of protecting our resources and ensuring responsible economic development was key to the Resource agenda this year. This was evident in the need to revise current statute to provide appropriate sideboards to the leasing program within the Mat-Su Borough for drilling of coal bed methane. Hundreds of hours were dedicated to that one issue alone, and it is no small feat to say that the legislation’s sponsors, Resource Committee members and the public were able to work together, develop the tools to protect personal property and allow responsible drilling. It is an honor to be a part of the laws that govern how our resources are managed and the impact they have on all of our lives. It is proven again that responsible development does not diminish the shine of Alaska’s unimagined splendor.”*

**– Representative Nancy Dahlstrom, Co-chair House Resources Committee**

*“This was the year of Natural Gas. The Senate Resources Committee has spent a tremendous amount of time, and plans to spend more time over the interim, analyzing and evaluating all the different aspects of stranded gas act application contracts and their impact on the State.*

*We have hired an oil and gas tax and royalty consultant and plan to hold a series of mini-gas summits over the summer to poise the Legislature for approving the most beneficial terms. On a 4.5 billion cubic feet per day pipeline, one penny of difference in the cost of either the tariff for transporting the gas or the cost of gas itself equals \$575 million in gross revenues over a 35-year period, the maximum term of any Alaska Stranded Gas Development Act contract. A penny equals \$575 million. That’s what’s at stake here. Every penny we negotiate away, we give in concessions, creates more than \$115 million in lost revenue to the state.*

*There are also significant ancillary issues, such as what gas gets in the pipeline first and how to get the best revenues.*

*Also, even assuming the pipeline is in place by the year 2010 with an output of 4.5 billion cubic feet per day, it is projected that the United States will be importing 11 to 20 percent of our natural gas from foreign soil. So in addition to the economic stimulus and long-term revenue, completing this project also has national security implications. This will be the largest construction project in North America, and the Legislature is committed to ensuring terms are negotiated in the best interest of the state.”*

**– Senator Scott Ogan, Chair of the Senate Resources Committee**

Article VIII of Alaska’s Constitution establishes the policy of the State “to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest.”

That has been the guiding principle behind the Twenty-third Legislature’s dramatic and fundamental changes to reform the permitting and litigation process, and create incentives in the area of resource development.

With several world-class mines, including the world's largest operating zinc mine, 25 percent of the nation's oil and more than 50 percent of the nation's seafood, Alaska's proven and unexplored natural resources are greater than any other state's.

But with a permitting system developed piecemeal over the 43 years since statehood, our state's process for approving resource development projects had become increasingly lengthy, disjointed and confusing to the public, agencies, and applicants.

Last year the Legislature passed measures to reform the Alaska Coastal Management Program, designate the Department of Natural Resources as the lead state agency in permitting projects, extend the period of time between renewals for oil discharge and contingency plans (C-plans), and implement the findings of the Air Permits Work Group.

This year the Legislature passed a bill that restores the authority of the Department of Natural Resources to enter into agreements for reimbursement of department costs incurred in assisting potential pipeline right-of-way lease applications in their preparation of an application under the Alaska Right-of-Way Leasing Act. It also appropriated \$1.65 million to the Department of Revenue and the Alaska Natural Gas Development Authority for work related to bringing Alaska's natural gas to market.

The State is also beginning to reap the rewards of legislation passed last year revising the Alaska Stranded Gas Development Act to encourage more companies to apply. Under the Act, qualified sponsors must apply to negotiate a contract that defines the fiscal terms such as royalties, severance taxes, property taxes or payment in lieu of taxes.

The State has approved and is negotiating a joint application from the three major North Slope producers, Conoco-Phillips, BP and Exxon. It has also received an application from a major Canadian oil and gas transportation company, Enbridge Inc., to negotiate terms for building a natural gas pipeline from the North Slope to the Yukon border. Another application is anticipated from TransCanada Corporation, which signed a Memorandum of Understanding with the state on April 19, 2004.

The State has also formally agreed to help the Alaska Gasline Port Authority, a joint effort of the city of Valdez and the Fairbanks North Star Borough, facilitate development and construction of a pipeline that will commercialize stranded North Slope gas.

The State also continued to implement recommendations from the Joint Legislative Salmon Industry Task Force created in 2002 to address multiple challenges of the depressed commercial salmon industry. Recognizing the importance of independent fishermen to the future of the fishing industry, the Legislature passed a bill to help the growing sector of fishermen trying to develop new markets in value-added products. The bill reduces the Fisheries Business Tax on small direct marketing vessels from 5 percent to 3 percent, leveling their rate to that of shore processors and Bering Sea factory trawlers. It also taxes the products of small-boat fishermen on the same value as the prevailing grounds price on which other processors base their taxes.

Another bill would designate 12 seafood development regions and allow for the establishment of regional development associations that could vote to self-assess a seafood development tax to promote and market regional seafood products.

No longer enough to *say* the state of Alaska is “open and ready for business,” the Twenty-third Alaska Legislature took major steps to change the way we *do* our State’s business.

## **2004 Second Session**

### **HB 409: Seine Vessel Length**

Removes the statutory prohibition for the length of salmon seine vessels and leaves the authority to the Alaska Board of Fisheries to regulate Seine fishing vessels in the same manner they do other types of vessels.

*Sponsor: Rep. Bill Williams by Request Jnt. Salmon Industry Task Force Committee*

### **HB 417: Alaska Natural Gas Dev. Authority Initiative**

Amends the definition of a project to include all options for a terminus of the Alaska Natural Gas Pipeline. This specifically identifies Cook Inlet as a possible terminus.

*Sponsor: Rep. Mike Chenault*

### **HB 419: Regional Seafood Development Associations/Tax**

Allows fishermen to form regional seafood development associations to tax themselves, providing a stable funding source for marketing efforts. Clarifies that the first qualified organization to apply will be designated the regional seafood development association and more closely defines the membership of the associations.

*Sponsor: Rep. Dan Ogg by Request Jnt. Salmon Industry Task Force Committee*

### **HB 522: Small Cruise Ship Discharges**

Creates an alternative regulatory system that allows small commercial passenger vessels to continue to operate in Alaska waters without the massive technological retrofit required of larger vessels. Allows these vessels to submit a plan for alternative terms and conditions of vessel discharge based on best management practices (BMPs) if the keel of the vessel was laid before Jan. 1, 2004.

*Sponsor: Hou. State Affairs Committee*

### **HB 524: Waste Management/Disposal**

Changes the existing statutory authority for a waste disposal permit program (AS 46.03.100) by reorganizing and supplementing it.

*Sponsor: Hou. Rules Committee by Request Gov. Frank Murkowski*

**HB 531: Conventional and Nonconventional Gas Leases**

Initiates a permanent solution to on-going leasing problems. Scraps the separate leasing process for shallow natural gas leasing and treats leasing of that commodity under the conventional oil and gas leasing provisions. Repeals several non-conforming statutes and conforms to HB 524, An Act relating to the protection of land and water from waste disposal; providing for the regulation of waste management.

*Sponsor: Hou. Resources Committee*

**HB 545: State Lease and Contract Extensions**

Changes the State Procurement Code. Authorizes the state to negotiate lease rate reductions on existing leases in exchange for certain term extensions when favorable lease rates are available. Increases the percentage the state can negotiate from 5 percent to 10 percent.

*Sponsor: Hou. Rules Committee by Request Gov. Frank Murkowski*

**HB 546: Pollution Discharge and Waste Treatment/Disposal**

Amends some existing permit requirements related to application submittals, public notice and comment opportunities, the maximum term of permits, and the causes for termination or modification of an authorization.

*Sponsor: Hou. Rules Committee by Request Gov. Frank Murkowski*

**HB 556: AIDEA Bond for Lynn Canal Port**

Provides legislative approval for the Alaska Industrial Development and Export Authority to issue bonds or otherwise provide financing for a port development project at Lynn Canal. Limits funds for the project to bond sales. Specifies the location of the project at Slate Creek Cove and Cascade Point on Lynn Canal. The bonds would be retired using lease payments from the proposed Kensington Mine operation.

*Sponsor: Hou. State Affairs Committee*

**HJR 44: Sea Otter Research/Endangered Species**

Requests that the United States Fish and Wildlife Service and the United States Congress provide \$5 million a year over the next five years to conduct research into the abundance of the Northern Sea Otter and the cause of the decline of the Southwest Alaska population of the Northern Sea Otter in the western Gulf of Alaska.

*Sponsor: Hou. Resources Committee by Request*

**SB 241: Appropriation: North Slope Natural Gas**

Appropriates \$1.65 million to the Department of Revenue for work related to bringing natural gas from the North Slope to market during Fiscal Year 2004. The language of the appropriation is broad enough to cover work for the Alaska Natural Gas Development Authority as well as technical expertise critical to on-going negotiations under the Stranded Gas Development Act. An accompanying letter of intent stipulates that at least \$650,000 be allocated directly to the Alaska Natural Gas Development Authority, created by a voter-approved citizens' initiative in the 2002 general election. The appropriation lapses June 30, 2005.

*Sponsor: Senator Gene Therriault*

**SB 264: Repeal Pipeline Preapplication Deadline**

Restores the authority of the Department of Natural Resources to enter into agreements for reimbursement of department costs incurred in assisting potential pipeline right-of-way lease applications in their preparation of an application under the Alaska Right-of-Way Act.

*Sponsor: Senate Rules Committee by Request Gov. Frank Murkowski*

**SB 265: Oil & Gas Lease Sale Schedule/Notification**

Allows the commissioner of the Department of Natural Resources, upon notification of the Legislature, to amend at any time the sale schedule under the five-year oil and gas lease program, AS 38.05.180(b) and (c). Removes the current requirement that a proposed sale be on the schedule for two years before being held. Instead, a sale may not be held before the date in the amended five-year program. Allows DNR to move up the earliest possible date for a proposed lease sale on the Alaska Peninsula, from 2007 under current law, to 2005.

*Sponsor: Senate Rules Committee by Request of Gov. Frank Murkowski*

**SB 266: Bristol Bay Oil & Gas Lease Sale Closure**

Approves a classification that closes certain land in the Bristol Bay area to oil and gas exploration licensing and shallow natural gas leasing so the land will remain available for a proposed competitive oil and gas sale. Precludes exploration licensing and gas leasing only in the competitive lease sale area and ensures the state the maximum economic benefit through bonus bids, royalties and lease terms.

*Sponsor: Senate Rules Committee by Request Gov. Frank Murkowski*

**SB 286: Direct Marketing Fisheries Business/Taxes**

Reduces the Fisheries Business Tax on direct marketing vessels of 65 feet or less from 5 percent to 3 percent, leveling their rate to that of shore processors and Bering Sea factory trawlers. Taxes the products of small-boat fishermen on the same value as the prevailing grounds price on which other processors base their taxes.

*Sponsor: Senator Bert Stedman*

**SB 348: Approve Flint Hills Royalty Oil Sale**

Grants legislative approval to a 10-year contract for the sale of state royalty oil to Flint Hills Resources, a subsidiary of Koch Industries in Wichita Kansas. The Department of Natural Resources forecasts that royalty revenues under the contract will be approximately \$0.30 per barrel higher than if the royalty were taken in value from the North Slope producers, resulting in increased state revenues from \$2.6 million to \$8.4 million. Flint Hills also committed to numerous other provisions beneficial to the state, including investing \$100 million in new processing equipment that will produce low-sulfur fuel mandated by the federal government beginning June 2006.

*Sponsor: Senator Gene Therriault*

## **2003 First Session**

### **HB 28: Oil & Gas Royalty Modification**

Provides a flexible method to calculate oil and gas royalties so that the State can encourage production of oil and gas fields that might be marginal or not economically feasible under the current system.

*Sponsor: Rep. Vic Kohring, Rep. Norman Rokeberg*

### **HB 57: Royalty Gas Contracts**

Gives the Commissioner of Natural Resources authority to negotiate royalty contracts on natural gas and includes manufacturers in the negotiating.

*Sponsor: Rep. Mike Chenault*

### **HB 160: Emission Control Permit Program**

Implements the findings of the Air Permits Work Group and a benchmark study that reviewed funding and workforce allocation levels in air programs of states that are comparable to Alaska. Brings Alaska up to date with the national permit regime and creates a predictable, timely, and rational permitting program.

*Sponsor: House Rules Committee by Request Gov. Frank Murkowski*

### **HB 191: Coastal Management Programs**

Streamlines the Alaska Coastal Management Program by relying on existing state statutes and regulations as the enforceable policies of the ACMP. Allows municipalities to retain their existing land use authorities to regulate private activity within their jurisdiction.

Authorizes the Department of Natural Resources (DNR), as the implementing agency, to adopt local ordinances as enforceable policies to be applied in consistency reviews of federal projects and Outer Continental Shelf (OCS) development. DNR will consult with the local government when interpreting and applying the local ordinance as part of a consistency review. Adopts certain existing coastal district policies for federal OCS development as state enforceable policies.

*Sponsor: House Rules Committee by Request Gov. Frank Murkowski*

### **SB 71: Transportation Enhancement Projects**

Decrease the amounts allocated for the TRAAK program and other enhancement projects to free up millions of dollars to be available for roadway construction and improvement projects.

*Sponsor: Senator Ben Stevens*

### **SB 73: AIDEA: Loan Participation and Regulations**

Extends the sunset on the Alaska Industrial Development and Export Authority's bonding authorization until July 1, 2007, which extends the Authority's bonding authorization for development projects of \$10,000,000 or less.

*Sponsor: Senate Rules Committee by Request Gov. Frank Murkowski*

**SB 74: Discharge Prevention & Contingency Plans**

Extends the renewal period for oil discharge prevention and contingency plans from three years to five years. Requires that all operators of oil terminals, pipelines, exploration or production facilities, tank vessels, and oil barges have an approved oil discharge prevention and contingency plan in order to operate. Allows agencies more time to enforce the terms of such plans and give industry more time to prepare to implement them in the event of emergencies.

*Sponsor: Senate Rules Committee by Request Gov. Frank Murkowski*

**SB 88: Forest Resources and Practices Standards**

Revises the riparian management standards of the Forest Resources Practices Act (FRPA) for Region III by strengthening protection for fish habitat and water quality in a manner that continues to support both the timber and fishing industries.

*Sponsor: Senator Ralph Seekins*

**SB 142: DNR Lead Resource Development Projects**

Designates the Department of Natural Resources (DNR) as the lead state agency in the permitting of resource development projects in this state.

*Sponsor: Senate Rules Committee by Request Gov. Frank Murkowski*

**SB 151: Regulation of Natural Gas Pipelines**

Clarifies that the RCA has the authority to authorize “firm” and “interruptible” services for other Alaskan gas transmission pipelines.

*Sponsor: Senator Tom Wagoner*

**SB 185: Royalty Reduction on Certain Oil/Tax Credit**

Offers an oil and gas production tax credit to companies that perform exploration work from July 1, 2003 through July 1, 2007. Brings the cost of exploration in Alaska in line with the costs of other places around the world.

*Sponsor: Senator Tom Wagoner*

**SB 213: Knik Arm Bridge and Toll Authority**

Establishes the Knik Arm Bridge and Toll Authority, related to building and operating a toll bridge over Knik Arm.

*Sponsor: Senate Rules Committee by Request Gov. Frank Murkowski*

**SB 215: Seafood and Food Safety Laboratory**

Issues certificates of participation to fund a new seafood and food safety laboratory.

*Sponsor: Senate Rules Committee by Request Gov. Frank Murkowski*

**SCR 1: Support Roads/Hot Springs Loop Road**

Encourages new economic development generated by new road construction.

*Sponsor: Senator Gary Wilken*

**SJR 4: Endorsing ANWR Leasing**

Urges the United States Congress to pass legislation opening the coastal plain of the Arctic National Wildlife Refuge, Alaska, to oil and gas exploration, development and production.

*Sponsor: Senator Tom Wagoner*