

Sponsor Statement for House Bill 519

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Natural Gas Pipeline – Special Provisions

"An Act authorizing priority treatment under the Right-of-Way Leasing Act for an Alaska North Slope natural gas project; expanding the scope for the kinds of gas development projects that may become qualified projects under the Alaska Stranded Gas Development Act; extending the deadline for submitting applications under the Alaska Stranded Gas Development Act; exempting an Alaska North Slope natural gas project from state property tax and all municipal taxes during construction; and providing for an effective date."

The time has come for Alaska to engage in the development of a natural gas pipeline. With declining production from Alaska's large oil fields, the scaling back in exploration efforts by some of Alaska's largest producers, apparent substantial delays in any work that might come from exploration and hopefully production on the coastal plain of ANWR, layoffs of oil industry employees, and problems in other resource industries such as fishing, mining, and timber. The gas pipeline offers the only hope for substantial near-term work for Alaska's oil and support industries. In our fiscal crisis, it is imperative the legislature enact legislation this session to encourage construction of a natural gas pipeline before this opportunity for our economy disappears for perhaps another decade or longer.

HB 519 provides an encouragement to the producers that helps diminish the huge risks in this largest of construction projects. In exchange, it also contains provisions, important to the State of Alaska, as conditions for obtaining the benefit of such incentive, such as the pipeline follow the "southern" route, and provisions for Alaska hire, buy, and build. Of course, the major benefits to the State, if this incentive results in construction of the line, will be a substantially positive effect on the economy with jobs and construction activity, and taxes and royalties from the production and sale of natural gas. These benefits may never come to be, or may not come from decades, if this window of opportunity is missed.

HB 519 offers an incentive in temporary relief from the ad valorem tax that would be imposed on the pipeline for the period, from before construction through the second year of commercial operations. This would provide tax relief in an important period of the project when a large amount of cost is experienced but no income is yet being generated, and early into commercial operations of the project. The project entails very substantial financial risk as to price, and the cost of this mega-project through a federal income tax credit. This would provide important risk protection, but possibly leave the project developers at risk for project construction cost overruns. The tax relief in HB 519 could provide a means of reducing one element of the costs during construction and thereby reduce the risk. This would not affect any other taxes or royalties the state collects. After the relief period has expired, the State and local governments will have a natural gas pipeline upon which to collect property taxes. If the project does not go forward, these benefits to the State will not be realized.

The gas pipeline must be constructed along the “southern” route. All the companies involved in the engineering, construction, and operation of the pipeline must pledge their best effort to hire Alaskans, buy from Alaskans, and build facilities in Alaska.

HB 519 also reopens the Alaska Stranded Gas Development Act, [AS 43.82](#), enacted in 1998. It contains important provisions regarding Alaska hire and contracting with Alaska businesses, making gas available to meet reasonably foreseeable demand for in-state use, and provides a mechanism for the state and project sponsors to reach agreement or clarify certainty on fiscal terms and on other issues important to the parties.

[HB 519](#) has the advantages of offering an incentive rather than threatening a disincentive. It will demonstrate that the State wants a natural gas pipeline to be constructed, is prepared to help this risky and enormous project be less risky, and will work with the current producers to their and the State’s mutual advantage. At least one producer has indicated a willingness to go forward if the State makes this showing.