

**State of Alaska  
FY2016 Governor Amended Operating  
Budget**

**Department of Revenue  
Natural Gas Commercialization  
Component Budget Summary**

**Component: Natural Gas Commercialization**

**Contribution to Department's Mission**

Provide analytical support for the commercialization of North Slope natural gas.

**Major Component Accomplishments in 2014**

- Provided support for Alaska Liquefied Natural Gas (AK LNG) project.

**Key Component Challenges**

- Provide stakeholders including the Administration, the State Legislature, Congress, potential customers and producers with information on how Alaska's fiscal systems support the economic viability of a natural gas pipeline from Alaska's North Slope to the lower 48 states.
- Provide analysis of the effects of in-state gas pipeline initiatives on the commercialization of North Slope natural gas.
- Provide fiscal systems analysis in support to commercialize natural gas resources.

**Significant Changes in Results to be Delivered in FY2016**

No changes in results delivered.

**Statutory and Regulatory Authority**

AS 43.90 et. seq. Alaska Gasline Inducement Act

**Contact Information**

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<b>Natural Gas Commercialization Component Financial Summary</b>			
		<i>All dollars shown in thousands</i>	
	FY2014 Actuals	FY2015 Management Plan	FY2016 Governor Amended
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	0.0	0.0	0.0
72000 Travel	0.0	0.0	0.0
73000 Services	118.1	2,625.0	150.0
74000 Commodities	0.0	0.0	0.0
75000 Capital Outlay	0.0	0.0	0.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>118.1</b>	<b>2,625.0</b>	<b>150.0</b>
<b>Funding Sources:</b>			
1004 General Fund Receipts	118.1	125.0	0.0
1236 Alaska Liquefied Natural Gas Project Fund I/A (AK LNG I/A)	0.0	2,500.0	150.0
<b>Funding Totals</b>	<b>118.1</b>	<b>2,625.0</b>	<b>150.0</b>

<b>Estimated Revenue Collections</b>				
Description	Master Revenue Account	FY2014 Actuals	FY2015 Management Plan	FY2016 Governor Amended
<b>Unrestricted Revenues</b>				
None.		0.0	0.0	0.0
<b>Unrestricted Total</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Restricted Revenues</b>				
Alaska Liquefied Natural Gas Fund	51512	0.0	2,500.0	150.0
<b>Restricted Total</b>		<b>0.0</b>	<b>2,500.0</b>	<b>150.0</b>
<b>Total Estimated Revenues</b>		<b>0.0</b>	<b>2,500.0</b>	<b>150.0</b>

**Summary of Component Budget Changes  
From FY2015 Management Plan to FY2016 Governor Amended**

*All dollars shown in thousands*

	<u>Unrestricted Gen (UGF)</u>	<u>Designated Gen (DGF)</u>	<u>Other Funds</u>	<u>Federal Funds</u>	<u>Total Funds</u>
<b>FY2015 Management Plan</b>	<b>125.0</b>	<b>0.0</b>	<b>2,500.0</b>	<b>0.0</b>	<b>2,625.0</b>
<b>One-time items:</b>					
-Reverse Gas Pipeline; AGDC; Oil and Gas Production Tax Ch14 SLA2014 (SB138) (Sec2 Ch14 SLA2014 P48 L17 (HB266))	0.0	0.0	-2,500.0	0.0	-2,500.0
-Reverse Addition of UGF Funding for the Audit of the Alaska Gasline Inducement Act Reimbursement Fund as OTI	-125.0	0.0	0.0	0.0	-125.0
<b>Adjustments which continue current level of service:</b>					
-Restore Gas Pipeline; AGDC; Oil and Gas Prod Tax Ch14 SLA2014 (SB138) (Sec2 Ch14 SLA2014 P48 L17 (HB266)) (FY15 - FY16)	0.0	0.0	150.0	0.0	150.0
<b>FY2016 Governor Amended</b>	<b>0.0</b>	<b>0.0</b>	<b>150.0</b>	<b>0.0</b>	<b>150.0</b>

**Component Detail All Funds**  
**Department of Revenue**

**Component:** Natural Gas Commercialization (AR15340) (2859)  
**RDU:** Administration and Support (50)

	<b>FY2014 Actuals</b>	<b>FY2015 Conference Committee</b>	<b>FY2015 Authorized</b>	<b>FY2015 Management Plan</b>	<b>FY2016 Governor Amended</b>	<b>FY2015 Management Plan vs FY2016 Governor Amended</b>	
71000 Personal Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
72000 Travel	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
73000 Services	118.1	125.0	2,625.0	2,625.0	150.0	-2,475.0	-94.3%
74000 Commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
75000 Capital Outlay	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
77000 Grants, Benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
78000 Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
<b>Totals</b>	<b>118.1</b>	<b>125.0</b>	<b>2,625.0</b>	<b>2,625.0</b>	<b>150.0</b>	<b>-2,475.0</b>	<b>-94.3%</b>
<b>Fund Sources:</b>							
1004Gen Fund (UGF)	118.1	125.0	125.0	125.0	0.0	-125.0	-100.0%
1236AK LNG I/A (Other)	0.0	0.0	2,500.0	2,500.0	150.0	-2,350.0	-94.0%
<b>Unrestricted General (UGF)</b>	<b>118.1</b>	<b>125.0</b>	<b>125.0</b>	<b>125.0</b>	<b>0.0</b>	<b>-125.0</b>	<b>-100.0%</b>
<b>Designated General (DGF)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0%</b>
<b>Other Funds</b>	<b>0.0</b>	<b>0.0</b>	<b>2,500.0</b>	<b>2,500.0</b>	<b>150.0</b>	<b>-2,350.0</b>	<b>-94.0%</b>
<b>Federal Funds</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0%</b>
<b>Positions:</b>							
Permanent Full Time	0	0	0	0	0	0	0.0%
Permanent Part Time	0	0	0	0	0	0	0.0%
Non Permanent	0	0	0	0	0	0	0.0%

**Change Record Detail - Multiple Scenarios with Descriptions**  
**Department of Revenue**

**Component:** Natural Gas Commercialization (2859)

**RDU:** Administration and Support (50)

Scenario/Change Record Title	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants, Benefits	Miscellaneous	Positions		NP
										PFT	PPT	
***** Changes From FY2015 Conference Committee To FY2015 Authorized *****												
<b>FY2015 Conference Committee</b>												
1004 Gen Fund	ConfCom	125.0	0.0	0.0	125.0	0.0	0.0	0.0	0.0	0	0	0
<b>Gas Pipeline; AGDC; Oil and Gas Production Tax Ch14 SLA2014 (SB138) (Sec2 Ch14 SLA2014 P48 L19 (HB266))</b>												
1236 AK LNG I/A	FisNot	2,500.0	0.0	0.0	2,500.0	0.0	0.0	0.0	0.0	0	0	0

This bill would help the state move forward as a partner in a large scale Alaska Liquefied Natural Gas Project (AKLNG). While the bill itself contains numerous sections that affect other departments or corporations in the state, the analysis done for this fiscal note is limited to the two provisions relating to the Affordable Energy Fund and financing in the Department of Revenue.

1) The bill would establish the Alaska Affordable Energy Fund to provide a source from which the legislature may appropriate money to develop infrastructure to deliver energy to areas of the state that are not expected to have or do not have direct access to a North Slope natural gas pipeline. This fiscal note assumes that this fund would be established as one of many funds managed as part of the GeFonsi and therefore, no additional costs are envisioned to manage the fund. The fiscal note does not reflect an indeterminate change in revenues due to the fact that there are no projected royalty revenues before 2024. Current estimates by the Administration's consultants are that 20 percent of royalty revenues would exceed \$180 million annually over the life of the project.

2) The bill directs the Commissioner of Revenue to provide a report to the Legislature on the range of financing options for state acquisition of an ownership interest and participation in a North Slope natural gas project. The Commissioner will provide an interim draft report to the Legislature at the beginning of the first regular session of the 29th Alaska State Legislature. When contracts negotiated to advance the AKLNG project to Front End Engineering Design (FEED) are presented to the Alaska State Legislature, the Commissioner will issue a final report of the financing options. That report must also include the development of a plan for municipalities, regional corporations and residents to participate in the ownership of a North Slope natural gas pipeline. The plan must include recommendations by the Commissioner of Revenue regarding:

- Qualifications as a resident that may invest in the pipeline
- How a municipality, regional corporation or resident may invest in the pipeline
- The entity through which ownership should be acquired
- The notification process to residents acquiring ownership
- Ownership transferability
- If ownership is via the State's interest in the pipeline, how income or dividends will be shared with resident owners
- If ownership is via a publicly traded corporation that has an ownership interest in the pipeline, how those publicly traded corporations will be identified.

In order to develop the above reports and recommendations, the department will require substantial subject matter expertise. The department estimates that these contracted services will cost \$2,500,000 during FY2015 and \$150,000 during FY2016. The funding is requested in the Natural Gas Commercialization component.

<b>Subtotal</b>		<b>2,625.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2,625.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>
***** Changes From FY2015 Authorized To FY2015 Management Plan *****												
<b>Subtotal</b>		<b>2,625.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2,625.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Change Record Detail - Multiple Scenarios with Descriptions**  
**Department of Revenue**

**Component:** Natural Gas Commercialization (2859)

**RDU:** Administration and Support (50)

Scenario/Change Record Title	Trans Type	Totals	Personal Services	Travel	Services	Commodities	Capital Outlay	Grants, Benefits	Miscellaneous	Positions		NP	
										PFT	PPT		
<b>***** Changes From FY2015 Management Plan To FY2016 Governor Amended *****</b>													
<b>Reverse Gas Pipeline; AGDC; Oil and Gas Production Tax Ch14 SLA2014 (SB138) (Sec2 Ch14 SLA2014 P48 L17 (HB266))</b>													
	OTI	-2,500.0	0.0	0.0	-2,500.0	0.0	0.0	0.0	0.0	0.0	0	0	0
1236 AK LNG I/A		-2,500.0											
<p>This bill helps the state to move forward as a partner in a large natural gas project, including liquefaction facilities. It gives the Commissioner of Natural Resources, 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 election to pay their production tax liabilities with gas (tax as gas "TAG") instead of with money.</p> <p>This bill also expands the education tax credit allowed against the oil and gas production tax to include contributions made to vocational education for equipment and for contributions made to a nonprofit regional training center recognized by the Department of Labor, an apprenticeship program in the state that is registered with the U.S. Department of Labor, programs approved by the United States Department of Veterans Affairs and the Alaska Commission on Postsecondary Education. This bill does not increase or decrease the aggregate amount of total education tax credits allowed against the oil and gas production tax. It merely identifies additional types of contributions that can qualify for the credit. It is possible that taxpayers, who have not made qualifying contributions and not claimed an education tax credit in the past, may make contributions to these entities for these purposes. However, it is difficult to determine how this language will affect taxpayer behavior and, therefore, it is difficult to determine if this bill will affect revenue from the oil and gas production tax. This bill does not increase the maximum education tax credit amount which is currently limited to \$5 million per taxpayer.</p> <p>Currently, there are eight tax types for which an education tax credit can be claimed. The total amount a taxpayer can claim across all eight tax types is \$5 million. The language in this amendment will only affect the oil and gas production tax; therefore, contributions made to these new entities can only be claimed as a credit against the oil and gas production tax.</p>													
<b>Reverse Addition of UGF Funding for the Audit of the Alaska Gasline Inducement Act Reimbursement Fund as OTI</b>													
	OTI	-125.0	0.0	0.0	-125.0	0.0	0.0	0.0	0.0	0.0	0	0	0
1004 Gen Fund		-125.0											
<b>Restore Gas Pipeline; AGDC; Oil and Gas Prod Tax Ch14 SLA2014 (SB138) (Sec2 Ch14 SLA2014 P48 L17 (HB266)) (FY15 - FY16)</b>													
	IncM	150.0	0.0	0.0	150.0	0.0	0.0	0.0	0.0	0.0	0	0	0
1236 AK LNG I/A		150.0											
<p>The out year funding for SLA2014 fiscal note number 24 of \$150.0 was erroneously restored to the Tax Division in the Governor's FY2016 budget when it should have been restored to the Natural Gas Commercialization Component. This record will restore it to the proper component and an accompanying reversal will remove the funding from the Tax Division.</p>													
<b>Totals</b>		<b>150.0</b>	<b>0.0</b>	<b>0.0</b>	<b>150.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Line Item Detail**  
**Department of Revenue**  
**Services**

**Component:** Natural Gas Commercialization (2859)  
**RDU:** Administration and Support (50)

<b>Line Number</b>	<b>Line Name</b>		<b>FY2014 Actuals</b>	<b>FY2015 Management Plan</b>	<b>FY2016 Governor Amended</b>
73000	Services		118.1	2,625.0	150.0
<b>Expenditure Account</b>			<b>FY2014 Actuals</b>	<b>FY2015 Management Plan</b>	<b>FY2016 Governor Amended</b>
	<b>Servicing Agency</b>	<b>Explanation</b>			
<b>73000 Services Detail Totals</b>			<b>118.1</b>	<b>2,625.0</b>	<b>150.0</b>
73050	Financial Services	Management/consulting services	118.1	2,625.0	150.0

**Restricted Revenue Detail**  
**Department of Revenue**

**Component:** Natural Gas Commercialization (2859)  
**RDU:** Administration and Support (50)

<b>Master Account</b>	<b>Revenue Description</b>				<b>FY2014 Actuals</b>	<b>FY2015 Management Plan</b>	<b>FY2016 Governor Amended</b>
51512	Alaska Liquefied Natural Gas Fund				0.0	2,500.0	150.0
<b>Detail Information</b>							
<b>Revenue Amount</b>	<b>Revenue Description</b>	<b>Component</b>	<b>Collocation Code</b>	<b>AKSAS Fund</b>	<b>FY2014 Actuals</b>	<b>FY2015 Management Plan</b>	<b>FY2016 Governor Amended</b>
51512	Alaska Liquefied Natural Gas Fund Reimbursable Service Agreement with AGDC	Natural Gas Commercialization	04040100	11110	0.0	2,500.0	150.0