

HOUSE FINANCE COMMITTEE
April 24, 2002
1:42 P.M.

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CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:42 P.M.

MEMBERS PRESENT

Representative Bill Williams, Co-Chair
Representative Eldon Mulder, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses
Representative Jim Whitaker

MEMBERS ABSENT

None

ALSO PRESENT

Amy Erickson, Staff, Representative Lisa Murkowski;
Representative Pete Kott; Mike Tibbles, Staff,
Representative Bill Williams; Representative Ethan Berkowitz;
Representative Mark Chenault; Representative Fred Dyson;
Erin Carey Byrne, Executive Director, Alaska Pharmaceutical Association, Anchorage;
Lis Merten, National Association of Chain Drug Stores, Olympia, Washington;
Freddie Toniola, Regional Supervisor, Fred Meyer, Seattle, Washington;
Guy Bell, Director, Division of Retirement and Benefits, Department of Administration;
Pat Pourchot, Commissioner, Department of Natural Resources;
Larry Persily, Deputy Commissioner, Department of Revenue;
David Marquez, Attorney, VECO Corporation, Anchorage;
Joe Marushack, Vice President, ANS Gas Commercialization, Phillips Petroleum Company-Alaska, Anchorage;
Bill Allen, President, CEO, VECO Corporation, Anchorage;
Rick Smith, Vice President, VECO Corporation, Anchorage;
Pamela La Bolle, Alaska State Chamber of Commerce, Juneau

PRESENT VIA TELECONFERENCE

Mark Bohrer, Pharmacist, Fred Meyer, Wasilla; Barry Christensen, Pharmacist, Ketchikan; Ken Thompson, Anchorage; Mike Wiggins, Vice President, AETNA, Seattle, Washington; Jack McRae, Senior Vice President, Blue Cross & Blue Shield Alaska; Ken Konrad, Senior Vice President, Gas for BP Exploration Alaska Inc., Anchorage; Rhonda Boyles, Mayor, Fairbanks North Star Borough, Fairbanks; John Ellwood, Executive Vice President, Chief Operating Officer, Foothills Pipe Lines Ltd., Anchorage; David Marquez, Attorney, VECO Corporation, Anchorage; Ken Thompson, President, Pacific Rim Leadership Development, LCC., Anchorage

SUMMARY

HB 248 An Act relating to retirement contributions and benefits under the public employees' retirement system of certain juvenile detention employees and juvenile correctional institution employees.

HB 248 was HEARD and HELD in Committee for further consideration.

HB 318 An Act relating to a health insurance uniform prescription drug information card; and providing for an effective date.

HB 318 was HEARD and HELD in Committee for further consideration.

HB 519 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.

HB 519 was HEARD and HELD in Committee for further consideration.

#HB318

HOUSE BILL NO. 318

An Act relating to a health insurance uniform prescription drug information card; and providing for an effective date.

AMY ERICKSON, STAFF, REPRESENTATIVE LISA MURKOWSKI, stated that HB 318 would create a uniform prescription drug card

that contains basic but essential information to help pharmacists improve patient care by minimizing confusion, eliminating unnecessary paperwork, decreasing administrative burdens and processing claim delays, and streamlining dispensing of prescription products paid for by a third party.

Ms. Erickson indicated that the card includes the card issuer's logo, patient's name, routing and group numbers, and the name and address of the benefits administrator and the help desk. The need for a uniform prescription card is necessary to the retail pharmacy industry. Pharmacists spend considerable amount of time deciphering insurance benefit cards, time that could be better spent with patients providing pharmaceutical care and educating them to effect optimal outcome of their drug therapy.

She added that prescription load volume has increased two-fold in the last five years and is expected to double again in the next four years. As our population grows older, more people are taking increasing numbers of prescription medications to prolong well-being. By clarifying the content on prescription benefit cards, pharmacists would be able to spend more time with the consumer providing pharmaceutical care.

Vice-Chair Bunde noted that since it would be beneficial to the consumer, why were the previous cards not "user friendly".

Ms. Erickson responded that was a compromise to accommodate some of the larger insurance companies. She estimated that it would cost about \$200,000 dollars to reissue 90,000 cards.

Vice-Chair Bunde inquired if new cards would be required only when registering a new person.

Ms. Erickson replied they would.

Co-Chair Mulder questioned why the legislation was needed.

Ms. Erickson explained that there has been an "outcry" by pharmacists throughout the State and consumers as well, who are tired of waiting long periods of time for prescriptions to be filled.

Co-Chair Mulder inquired the cost and benefit of the program.

Ms. Erickson advised that it would not be a new card, but rather new information on a reissued card.

MIKE WIGGINS, (TESTIFIED VIA TELECONFERENCE), VICE PRESIDENT, NATIONAL ACCOUNTS, AETNA, SEATTLE, stated that AETNA opposes HB 318. He noted that the bill fails to recognize that identification cards for medical and pharmacy coverage serve a multitude of different purposes other than just issuing a prescription card. The legislation has passed in 19 different states but it is different in each of those states. There is no one uniform act. Mr. Wiggins claimed that the legislation would only affect a small number of Alaskans and would not apply to the State plan, Medicare or any federal military programs. He believed that it would not deliver "value" for Alaska residents.

Mr. Wiggins pointed out that AETNA had worked diligently with the House Labor Committee. The amendment would require that insurance companies not be required to carry the prescription identification numbers or issue new cards with those numbers.

Vice-Chair Bunde understood that the bill addresses all those concerns. He asked why AENTA continues to oppose it.

Mr. Wiggins advised that current cards serve the purpose for which they are intended, even though they are not in the format requested.

Representative Hudson questioned how often the cards were issued.

Mr. Wiggins responded that the cards are reissued when there has been a plan change to the benefit program. The members can order new cards when there is a change. Most major plans changes every couple years.

Representative Hudson asked if the legislation were to pass, the next time there was a benefit change, would AETNA be statutorily required to issue an identification card containing the new information.

Mr. Wiggins replied that they would. He noted that he would have to change their computer system to accommodate changes.

JACK MCRAE, (TESTIFIED VIA TELECONFERENCE), SENIOR VICE PRESIDENT, BLUE CROSS & BLUE SHIELD, ALASKA, testified in opposition to HB 318. Mr. McRae claimed that there was ambiguity whether a separate card would need to be issued for the pharmacy. He noted that the bill still contains the National Council for Prescription Drug Program (NCPDP) pharmacy identification card implementation guide. Blue Cross is concerned that an "outside" agency can dictate what is on the membership card. Because they are a Blue Cross & Blue Shield Plan, there are requirements from the association, which give control regarding what is on the

card. He thought that giving that authority to NCPDP could be a "cost driver".

Mr. McRae indicated that the bill does list what should be on the card. He stressed that authority should not be place in statute because the business is changing so rapidly. Blue Cross & Blue Shield encourages the approach that if the legislature changes anything, they should move into the area of giving the director of insurance authority to indicate what the card should be. He recommended that all changes should be done through the regulatory rather than the legislative process. He reiterated that Blue Cross and Blue Shield do oppose the bill.

BARRY CHRISTENSEN, (TESTIFIED VIA TELECONFERENCE), PHARMACIST, KETCHIKAN, testified in support of the legislation. He noted that at his pharmacy, about 70% of the prescriptions are processed electronically and the information used for the claims is typically found on the prescription drug card. There is a lot of information on the cards and often it is not standardized. Consequently, pharmacists spend a lot of time on the phone. He added that pharmacists would like some help with processing the claims for themselves and for the patients that they serve.

Vice-Chair Bunde asked about the impact to the consumer. He asked if they would become so frustrated that they paid out of pocket for their prescription.

Mr. Christensen replied that was not typical. Eventually the situation gets resolved. There are some situations where the patient deals with it on their own depending on how much the prescription costs.

ERIN CAREY BYRNE, EXECUTIVE DIRECTOR, ALASKA PHARMACUTICAL ASSOCIATION, ANCHORAGE, spoke in support of the legislation.

She noted that the bill addresses the need for a minimum standard of information to be provided on prescription drug cards issued by third party payers. Without that basic information, 29% of the pharmacist's time is now spent attempting to get that information rather than dispensing and counseling patients on drug therapy. At this time, pharmacists are in short supply, drug products have increased 2000%, and baby boomers are presenting twice the number of prescriptions filled from 10 years ago, and there is a serious problem. HB 318 would alleviate the waiting time that consumers waste. That time is not spend waiting for drug therapy or medication, but rather because the information on their card is inadequate to process their claim.

Ms. Carey Byrne noted for the record that the bill would not require insurers to issue multiple cards. The bill

specifically states that it could be used for other insurance coverage. The fields mentioned in the bill would require all cards to provide patient name, identifier number, and the name of the company issuing the card. She added that the processor control and group number are situational fields, meaning that they only must be included when the insurer requires them to process a claim. Unless the insurer requires more to process a claim, all the bill would require is one number.

Another concern has been with the NCPD, (the body that establishes the health care codes). Cards would only be reissued when a substantive change is required involving billing or fields. Ms. Carey Byrne noted that major insurance companies, including those represented at the meeting, have representation on the NCPDP board and requires 90% consensus of all present to make a change. All that the insurers would have to do to block any change, would be to attend a meeting or instruct their representative to vote against new language.

Ms. Carey Byrne stated that HB 318 would result in a more efficient operating system for pharmacies. She noted that four years ago the original model language was drafted with insurer members of NCPDP participating in the process. She commented that the insurance companies represented would have minimum design changes to a card they issue.

The timing of the bill is important. By April 2003, the Health Insurance Portability and Privacy Act (HIPPA) is scheduled to go into effect, which would require a massive technological upgrade of systems throughout healthcare and in most cases would require insurers to issue new cards with updated templates in order to be in compliance with HIPPA. HB 318 would dovetail with the timing of HIPPA since cards would have to be reissued.

Ms. Carey Byrne pointed out that nineteen states have already passed bills similar to HB 318 and 20 more states are reviewing it. She added that in the end, the consumer would benefit, with less time waiting and less hassle at the pharmacy. She urged the Committee's support for HB 318.

Vice-Chair Bunde asked if 29% of the pharmacist's time was spent filling prescriptions.

Ms. Carey Byrne replied that was an audited statistic and that ultimately, costs are passed on to the consumer.

Vice-Chair Bunde asked if less time were spent on that work, would the savings be passed on to the consumer. He restated that if the bill were passed, would there be assurance that the cost of the drugs would go down.

Ms. Carey Byrne advised that the average cost for medication is \$44 dollars. Unfortunately, it is the manufacturers that establish the price.

Ms. Carey Byrne explained that the profit margin for a pharmacist is "very" slim.

Representative Hudson referenced his AETNA card and asked what the difference would be if the law was passed.

Ms. Carey Byrne explained that one number is missing, the BIN number. That number is the international identifier and the number that starts the entire process. Without that number, there is difficulty in processing and locating the claim. She stated that the legislation is only requesting a "standard of information".

LIS MERTEN, NATIONAL ASSOCIATION OF CHAIN DRUG STORES, K-MART, WALMART, COSTCO, & CARRS, OLYMPIA, WASHINGTON, stated that HB 318 would simply require that the insurance company put on their card whatever information is necessary to process their claims. What has transpired in the last twenty-five years is an ability to process business on-line. She stressed that the pharmacies are providing a convenience to the consumers and to the insurers. All that is being requested is that certain information is included on the card. She thought that was a simple request.

Ms. Merten pointed out that she had researched printing costs in Olympia. In that area, the cost would be approximately \$2100 dollars for printing 90,000 cards, which translates to 2.3 cents per card. She indicated that there would be mailing costs associated with the card change.

Ms. Merten advised that in other states where the legislation was not passed, but instead it was attempted to work it out through regulations, it has not worked out. Those states are: Arizona, Washington and Oregon. Ms. Merten offered to answer questions of the Committee.

Vice-Chair Bunde asked what the impact to the consumer would be.

Ms. Merten advised that she does not know dollar amounts, however, it would free up 30% of the pharmacists time and that would be money not spent on the phone. The present average cost per subscription is \$10.51, which could save some money. She stated that the freed up time would allow the pharmacist time to counsel the patient, which could save money, by helping prevent drug interactions harmful to consumers.

Representative Hudson asked if more than the card would be affected.

Ms. Merten explained that the pharmacists adjudicate all claims on line and in doing so there is information that is provided. There are a many patients that frequent a variety of pharmacies. The pharmacist would be able to determine what other medications that person is taking. For some people there is a commonality for existing customers.

FREDDIE TONIOLA, REGIONAL SUPERVISOR, FRED MEYER, SEATTLE, commented on the impact of the legislation to the consumer. The manner in which pharmacy computers are set up, do not have Internet access. The quickest and easiest way to access a plan is to have the BIN number. At that point, the pharmacist can address the formula issues.

If the pharmacist cannot identify the customer's plan, then the patient must make the decision whether they should pay out-of-pocket or wait to get their prescription filled. She stressed that neither is an "option" since the patient has insurance and they are entitled to that insurance coverage. Ms. Toniola stressed that the option of waiting and going without medication could have adverse outcomes. Another issue is that many times, the pharmacist is wasting time on the phone. As a health care provider, they would rather spend that time finding out if the medication is working.

Ms. Toniola emphasized that the legislation is simple and asks for a couple numbers that everyone should have access to. She urged passage of the bill.

MARK BOHRER, (TESFITIED VIA TELECONFERENCE), PHARMACY MANAGER, FRED MEYER, WASILLA, testified in support of the legislation. He echoed the sentiments of the previous speaker, Ms. Toniola. He stated that pharmacists spend a lot of time on the phone attempting to figure out the insurance code. The issue is not around their regular customers, but rather the new ones.

HB 318 was HELD in Committee for further consideration.

#HB248
HOUSE BILL NO. 248

An Act relating to retirement contributions and benefits under the public employees' retirement system of certain juvenile detention employees and juvenile correctional institution employees.

GUY BELL, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, noted that presently, in Alaska law (AS 39.35.370(a)(2)), it states that peace officers and firefighters are entitled to normal retirement benefit after 20 years of service. HB 248 would add "juvenile offices" to AS 39.35370(a)(2) as employees

eligible to participate in the 20-year retirement system. The term "juvenile officer" is defined to mean a "youth counselor, unit leader, or superintendent in a juvenile detention or juvenile correctional facility". Generally speaking, these "juvenile officers" are the employees who work with juveniles inside a correctional facility. They have the same or very similar training, and authority to restrain and arrest individuals as other peace officers.

Juveniles who are in a correctional facility are there for reasons such as commission of a serious crime, mental health problems, substance abuse problems, or combination of all of these issues. Such juveniles demand the highest level of care and rehabilitation efforts, while at the same time, presenting the highest level of risk to juvenile officers.

Presently, probation officers and other employees working with juveniles outside a correctional facility qualify for a 20-year retirement. As presently written, the statutes create an uneven situation where a probation officer working outside a correctional facility could arrest and deliver a juvenile to a correctional facility. The officer outside the facility would be entitled to a 20-year retirement while the officers inside the facility are not. Adult correctional officers also qualify for a 20-year retirement.

Mr. Bell advised that providing a 20-year retirement system for juvenile officers is fair since these employees perform the same or very similar work duties as other employees charged with preserving public safety. It also would create an incentive for existing juvenile officers to remain in their positions and would attract qualified applicants for new positions.

Mr. Bell addressed costs on the 240 employees in the status. The net present value of the additional benefit associated with the legislation is \$7.2 million dollars. An annual impact to the State would be .14% of State payroll, which would be the equivalent of \$896 thousand dollars. The personal services budget is about 48% of the general fund, which means a general fund cost of \$428 thousand dollars per year.

Vice-Chair Bunde asked how long would the cost extend.

Mr. Bell replied that it would extend for approximately twenty-five years.

Vice-Chair Bunde asked what the costs would be if the bill only applied to new hires.

Mr. Bell replied that the cost would be much lower; it would be the difference between future costs for officers versus other employees.

Vice-Chair Bunde asked if a newly hired peace officer now pays a higher rate into their retirement. He asked if it were made retroactive, would there be people required to make payment for their retroactive service.

Mr. Bell explained that the bill would require them to pay the difference from what they are paying as non peace officers, to what they would pay as peace officers. They would be required to pay that plus interest.

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Representative Hudson asked how the costs would be determined on an annual basis. He noted that it would be a statutory fixed cost to the State. He asked if the Department of Administration had the authority or if it would require legislation.

Mr. Bell explained that there exists a surplus in the system. Through the actuarial process as employer rates move down, it reflects that surplus. The process has been to bring the employer rate down.

In response to Vice-Chair Bunde, Mr. Bell informed members that it would be much more expensive for an individual. The way the system works in terms of rate development, the cost is spread throughout the entire State employee population. If the cost were to be spread to 240 individuals, it would be significantly higher.

Representative Whitaker asked what "significantly higher" was.

Mr. Bell replied that it could be approximately 70 times more.

Representative Whitaker asked what the cost would be if it was spread over the larger pool.

Mr. Bell replied that it would be .14% of payroll, which is a very small amount.

Vice-Chair Bunde MOVED to ADOPT Amendment #1, #22-LS0834\C.1, Craver, 4/15/02. (Copy on File). Co-Chair Williams OBJECTED.

Vice-Chair Bunde pointed out the expense associated with the legislation. He noted that Amendment #1 would clarify that anyone new coming into the system, the new retirement proposal could "fly". Those in the current system, however, were hired under a different set of circumstances, and the

legislation recommends those circumstances change "mid-stream". He suggested that having a two-tier system would be a valid system.

Co-Chair Williams disagreed. He understood the costs associated with implementing the legislation. He added, however, those officers do the stressful work and that must be considered.

Representative Whitaker requested specific cost numbers based on an average salary of the perspective employees.

Co-Chair Mulder concurred. He urged that either the amendment be adopted or the Committee find other means to bring the costs down.

Representative Harris interjected that the entire Committee understands the cost factor. He asked if there could be a compromise with the Department of Administration.

Co-Chair Williams noted that the Department has been working diligently to get the costs for the legislation down. He did not believe that the costs associated with the legislation could decline any lower than they are.

Representative Hudson advised that every year, employee and employers contribute into those funds, and the interest that they earn comes back, which reduces the cost to government on the interest earned annually. He observed that within various groups, there has been legislative policy made to fit into similar categories. Representative Hudson questioned how much last year had been earned. If that amount earned had 3% or 4%, that amount should be taken as a reduction in government and municipal costs. He wondered if juvenile officers should have the same consideration for early retirement as police officers.

Mr. Bell explained that the method used by the Department, amortizes costs over a 20-25 year period. The \$7 million dollars is the anticipated cost for the 20-year period.

Vice-Chair Bunde observed that with the long and easy pay, the State would be spending over \$10 million dollars. He acknowledged that the job is stressful but reminded Committee members that the State has an \$800 million dollar deficit.

Co-Chair Williams noted that HB 248 would be HELD in Committee for further consideration.

#HB519
HOUSE BILL NO. 519

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.

Co-Chair Mulder MOVED to ADOPT the committee substitute, #22-LS1651\R, Chenoweth, 4/23/02, as the version of the bill before the Committee. There being NO OBJECTION, it was adopted.

REPRESENTATIVE PETE KOTT, SPONSOR, provided a sectional analysis of the proposed draft. He noted that the bill would amend various statutes in furtherance of the construction and operation of the Alaska North Slope (ANS) natural gas project.

Representative Kott pointed out that the bill would provide an incentive to the industry by allowing a tax exemption for local property and sales tax for the period of construction plus two years, which is the most critical provision. Also, the bill would require that:

- The State Commissioner and officials act in an expeditious manner to the right of way leases;
- To add the natural gas pipeline as one of the qualifying projects in the bill; and
- To provide strong language to secure that Alaskans are given a better opportunity to participate in the fabrication, construction and operation of the project.

Representative Kott explained that the State of Alaska is no closer than it was two years ago to a gas pipeline. The current Administration has had the opportunity to negotiate for the past seven years. He emphasized the great potential for gas on the North Slope.

Representative Kott commented that members would hear testimony that the legislation is too costly. He noted that the existing tax scheme would remain in place and that passage of the bill would not insure anything. He encouraged members to look at the long-term benefits. The State will be getting between \$250-\$300 million dollars per year and the cost would be \$700 million for the construction period. HB 519 would be a good way to diversify the State's economy.

Representative Kott stressed that HB 519 is an important piece of legislation and is an incentive to the industry. He emphasized that the bill would bring clarity to the producers. He reiterated that it is an important "piece of the pie". The producers are ready to negotiate these terms.

Representative Kott discussed that HB 519 is about Alaska and its' future. The bill would be a step to the economic future of Alaska. He claimed that there would be no loss in revenue to the State and that the money could be negotiated down the road.

Representative Davies noted concern with previous statements made by Representative Kott regarding tax exemptions.

Representative Kott advised that the existing tax scheme was in place.

Representative Davies clarified that if there were to be construction on the pipeline, the bill would remove the taxes on the constructive product off the table. He pointed out that there are other negotiations that could move forward under the Stranded Gas Act for future considerations.

Representative Kott expected that could be part of the on-going negotiations between the Administration and the producers.

Representative Davies voiced caution and concern that Fairbanks would experience immediate impacts from the construction and the "tax holiday" and questioned the timing of the municipal concerns. He asked if the impacts had been discussed and what the best way to mitigate those concerns would be.

Representative Kott responded that concern had not been discussed. He reminded Representative J. Davies that there will be "social costs" along side the many benefits. He did not know what the impact would be to the local communities.

Representative Davies explained that most analysis indicates that without impact aid, the net impact on local governmental structures would be negative.

Representative Kott acknowledged that could be true, however, he had not heard those concerns voiced before.

Representative Davies agreed that there could be long term benefits but questioned how could the State could receive the short-term benefits also.

Representative Croft understood that the federal legislation would defer rather than providing a "tax holiday". He inquired why a choice of a tax holiday had been made rather than requesting a deferral.

Representative Kott advised that the bill would provide the clarity producers want in order to move forward with the project. The State has received zero gain for all the discussion that has occurred over the last ten years. The industry will be receiving nothing without the tax holiday.

Vice-Chair Bunde interjected that the State would like to see the gas pipeline happen "sooner rather than later". He asked about the 2004 application deadline.

Representative Kott commented that it would be appropriate to shorten that time frame in order to get the project "off the ground".

Vice-Chair Bunde referenced Page 7, Line 6, and asked about the "annual" base.

Representative Kott replied that would be left up to the Department of Revenue Commissioner to determine the date for regulation based on when the project begins.

Representative Harris voiced his appreciation for the legislation and the incentives that it would create. He echoed concerns voiced by Representative J. Davies about the impact to local services. He voiced concern with the timeline of when the actual construction ends on the project and recommended that the definition be further clarified. Representative Harris suggested that there be a project-labor agreement.

Representative Kott responded that if the State wants something, they must be willing to give something. The communities will receive a large benefit from the proposed legislation.

PAT POURCHOT, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, advised that the Administration opposes the provisions of the bill that would unilaterally grant a property tax exemption that could be worth up to \$700 million dollars, in the absence of a negotiating framework. Commissioner Pourchot maintained that the Administration does support the provisions of the bill that would expand the existing Stranded Gas Act.

Commissioner Pourchot stated that expanding that act would address many issues regarding issues of the State and issues of tax and royalty provisions. The stranded gas tax specifically provides for a municipal input component. He

explained the bill's date. He noted that there are two separate items in the bill that are unrelated.

- Granting of the property tax exemption is an absolute exemption.

There is no date provided regarding when the project would begin or how long that tax exemption would be in place. The date referred to in the bill, only addresses the fact that if one avails themselves to a negotiated process under the Stranded Gas Act, they would need to apply now. The committee substitute places that date at April 2004. That date does not mean that an agency has to apply, nor does it mean that it would have any relationship to a property tax exemption.

He explained that is important because there has been discussion about "recouping costs" in the negotiating process. Once the State gives something away, the State would have to "give something very valuable" to get back or there would need to be other types of trade offs on other kinds of taxes.

Commissioner Pourchot provided a quick history of the legislation. During the 1990's, the Administration contracted a study of Alaska State tax laws and the incentives and disincentives of gas development in Alaska. One of the conclusions of that study was that indeed, property tax was the single most important aspect as an incentive or disincentive for a gas line development. I advised that was a front-loading problem, and perhaps there could be a way to back-load taxes to recoup. That was the idea envisioned when the Legislature passed the Stranded Gas Act.

Commissioner Pourchot recommended that the Legislature not trust the Administration or the industry, but instead look at the information and how it could best contribute to the economic liability of the project.

Co-Chair Mulder questioned where the \$700 million dollar figure originated.

Commissioner Pourchot deferred those questions to the Department of Revenue, as they developed the fiscal information.

Co-Chair Mulder commented that there are two key provisions in HB 519, the property tax holiday and the reapplication of the Stranded Gas Act passed through HB 393. He suggested that they do not act totally separate, because HB 393 puts in place the negotiation for royalty, severance, and

corporate tax. He said that ultimately, it is up to the Commissioner to negotiate for the State.

Commissioner Pourchot pointed out that the producers or the pipeline sponsors would "think long and hard" about giving back something that they already had. The next question is what would that be worth. If it was worth \$700 million dollars, the State would have to provide quite a lot of benefit.

Co-Chair Mulder inquired why it could not be negotiated back.

Commissioner Pourchot understood that would be determined on the State's objectives. If the State were attempting to negotiate back \$700 million dollars, the State would need to offer a royalty reduction.

Co-Chair Mulder pointed out that a royalty only gets negotiated at the back-end.

Commissioner Pourchot advised that the royalty starts when the production begins. He stated that it was not in the State's best interest to take \$500 million dollars off the table and then put back on for more negotiations for a royalty. He interjected that was not necessary for the project.

Co-Chair Williams noted that it was only his intent to take public testimony on the bill at this meeting.

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Representative Davies questioned how the State would enter into the negotiations.

Commissioner Pourchot explained that it begins with an application from the project sponsor, not from the Administration.

Representative Hudson asked what caused the original Stranded Gas Act to terminate.

Commissioner Pourchot advised that the bill called for an application to be submitted by 2001; the time expired with no applications.

LARRY PERSILY, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, spoke to HB 519. He stated that the Stranded Gas Act was passed in 1998. It clarified that the purpose of the chapter was to encourage new investment to develop the State's stranded gas resources by authorizing an

establishment of fiscal terms related to the investment and to allow the fiscal terms applicable to that qualified sponsor and tailored to the particular economic conditions of the project. Also, it was intended to maximize the benefit to the people of the State.

Mr. Persily stated that the Department of Revenue supports authorizing the Stranded Gas Act, which expired June 30, 2001. He said that when giving billions of dollars for a project, there would be a problem for the construction period when there are substantial property taxes and no cash flow. Given the purpose of the gas flow act, it seems excessive to waive \$760 million dollars or more in property taxes until it is known how much is needed to be waived. The Stranded Gas Act clearly states how to maximize the benefit for the people of Alaska for gas development.

Through HB 519, property taxes would be waived throughout the construction and then for two full years following the construction. The \$760 million dollars is one quarter of all the property tax revenue estimated to be received on the 35-year project.

Mr. Persily observed that there is no link between the property tax waiver and the Stranded Gas Development Act. Under the Stranded Gas Development Act, the Department of Natural Resources would negotiate contracts payment in lieu of taxes. Approval of the contract would remain with the Legislature.

Mr. Persily spoke to the \$500 to \$760 million dollars. He observed that originally, the State looked at what portion of the property would be subject to property tax and how many of those miles would be located in Alaska. The estimated average cost for that project was \$500 million dollars. Probably, it will cost more to built a mile of pipe in Alaska than it would in the flat lands of Canada. The \$760 million dollar estimate was based on that projection.

Vice-Chair Bunde asked if there is anything in the proposed legislation that would prevent a future legislature from raising taxes.

Mr. Persily acknowledged that in any given year, the Legislature could change tax rates.

Representative Hudson asked if the contract would be required to include Alaskan and Canadian taxing authority.

Mr. Persily emphasized that Alaska cannot dictate tax policy in Canada. It is possible that project sponsors could be asking for similar incentives or waivers in Canada. He was not aware of any discussions regarding that.

Representative Davies asked for more information regarding the Department's property tax calculations and how the tax holiday would be affecting the numbers.

Mr. Persily discussed that the \$760 million dollar assumption was that production would begin in 2006. In the first two full years of production, taxes would be waived. Regarding the \$17 billion dollar pipeline, 30% percent of scheduled the cost would be in Alaska and 70% percent would be in Canada. There would also be a \$3 billion dollar gas conditioning line on the North Slope. The lost property revenue estimate is based on an understanding that the intent was to provide that tax waiver. He observed that the committee substitute attempts to clarify Page 5, Section 2(c).

DAVID MARQUEZ, ATTORNEY, VECO CORPORATION, ANCHORAGE, spoke in support of HB 519.

Mr. Marquez noted that a year ago when gas prices were high, everyone thought the pipeline was just around the corner. Now reality has set in and the project's costs and risks make it doubtful that it would be built, unless quick action is taken to keep it alive. He noted that the producers have indicated that work would proceed if three legislative actions to reduce risks were taken:

- (1) Federal enabling legislation;
- (2) Federal legislation that would help to reduce the risk of low gas prices; and
- (3) Alaskan legislation.

Mr. Marquez discussed that some believe that no federal assistance should be provided if Alaska is not willing to step forward. HB 519 sends a clear signal that the State is willing to participate. He noted that VECO believes that if the Legislature does take action to reduce the risks and costs of the project, the pipeline will happen.

Mr. Marquez pointed out that HB 519 takes two steps to reduce the risks associated with the project. Given the incentive, it would help to reduce risks associated with construction costs. Additionally, by revitalizing the Alaska Stranded Gas Development Act, it would lower the risks associated with tax and royalty uncertainty and would protect the State and the municipalities.

Mr. Marquez stated that the incentive would help to reduce construction costs. HB 519 grants a temporary exemption to the project from State property taxation and all municipal taxes for a period from commencement of the project's construction through the first two years of operation of the pipeline. He stressed that it is temporary and would not

apply to any taxes currently being collected. The bill would not affect present revenues. The amount of money saved through the temporary tax exemption would reduce the cost of construction, thus reduce the tariff and increases to the royalty and severance tax. When the tax holiday is finished, the State and local governments would have a pipeline on which to levy taxes for many decades and a new gas industry would have been created.

Mr. Marquez pointed out that the bill would require the producers to meet certain pro-Alaska conditions before the temporary tax exemption. First, it would be a southern-route pipeline. The bill indicates other conditions, including compliance with the federal acts relating to natural gas pipelines. Also included is an Alaska hire, buy and build requirement.

Mr. Marquez stated that the bill puts back into action the Alaska Stranded Gas Development Act that expired last June. That Act contemplates that the State and the producers would sign a contract that covers everything the State and the producers would need to have for a successful project. It was enacted after substantial effort by the Legislature, the industry and the Administration, to encourage the development of an LNG project and guarantee that the State and the municipalities were protected in the process.

The committee substitute makes the Act also applicable to a North Slope gas line, as well as an LNG project, and would extend the date until April 1, 2004, the deadline for filing an application for a contract with the State.

Mr. Marquez noted that just as important to the State and municipalities, the Stranded Gas Development Act provides a great process for the State and producers to negotiate the total fiscal regime for the pipeline that would be in the long-term fiscal interest of the State, while accommodating affected municipalities. The Act very specifically gives the municipalities an important role through the formation of a municipal advisory group under AS 43.82.500-520.

He added that there is an additional protection for the municipalities. The Act, at AS 43.82.020, empowers the Department of Revenue Commissioner to negotiate contract terms that provide for periodic payments in lieu of taxes that otherwise would be imposed by the State or a municipality. Under AS 43.82.200, 210 and 500, the Commissioner has to include a term in the contract that would provide for a portion of the periodic payments made in place of the tax go to the economically affected municipalities. Under AS 43.82.120 and 130, the producers' contract application must contain a description of the satisfactory terms under which the producers would make gas available to the meet the State's reasonable gas demand, and

must include rules regarding expansion. The producers must also furnish a detailed description of how the increased demand for public services and other negative effects caused by the project will be mitigated.

Mr. Marquez advised that there is disagreement regarding what point the incentive should be granted. He commented that there is concern regarding the "give away" and that; instead, the State should negotiate with the producers before any incentives are given. VECO does have a sense of "urgency" and strongly believes that the incentive should be granted now. If the action is not taken this year, the only opportunity for a significant boost to the State economy could be lost. He stressed that the Stranded Gas Development Act would protect the long-term fiscal interest of the State and municipalities. VECO urges that action be taken this year to keep the project alive.

Mr. Marquez advised that VECO does not consider HB 519 to be a producer bill. HB 519 is an Alaska bill that would provide for a short-term investment by Alaska that will pay off in a project that could be shipping gas, employing citizens and contractors, and boosting the State's economy for a hundred years.

Vice-Chair Bunde asked if this type of incentive had previously ever been used in the development of oil and gas.

Mr. Marquez responded that it had been used around the world for encouraging development. These incentives are not front-end loaded. He was not aware of any project like this in the United States.

Vice-Chair Bunde inquired about the negotiation process.

Mr. Marquez responded that there is a great prize for the producers on this risky project. The producers are compelled to enter into negotiations with the State of Alaska to achieve the prize. Mr. Marquez stated that of most value would be the prize of the possibility of "tax certainty" for a 30-year project, which will give the State leverage during the negotiations.

Vice-Chair Bunde requested that Mr. Marquez address the concern that Alaska might be "leaving too much on the table".

Mr. Marquez replied that it was the intent of the producers to have the opportunity under the Act to provide the opportunity of stability for the life of the project. If that can be negotiated and approved by the Legislature, then subsequent legislatures would have legal difficulty changing the terms.

Representative Davies referenced the "Alaska hire" provisions. The problem with Alaska hire is that the State cannot require it; consequently, those laws are weak. The only effective way to implement the Alaska hire provisions would be through a project labor agreement. He asked what VECO's stand would be on that.

Mr. Marquez explained that there will be more jobs than Alaskans can fill during the construction of the project, with many jobs for skilled labors. He thought that a project labor agreement would not be necessary for the project and that it could put another burden on an already risky project.

Representative Croft asserted that it would help the economics of the project if Alaska agreed to give up its severance tax as well.

Mr. Marquez replied that relinquishing the severance tax would help the economics. He added that it would be good during the negotiations to look at the long-term fiscal interest of the State in order to determine the factors that need to be balanced. Experts have indicated that it is the property tax that will leverage the project forward.

Representative Croft asked why VECO choose a tax holiday rather than a deferred tax credit.

Mr. Marquez explained that there would be a mechanism for repayment. The Stranded Gas Development Act provides the mechanism whereby the total long-term fiscal interests of the State and the municipalities are protected by the negotiated terms of the contract. Mr. Marquez argued that everything important is "on the table" in the legislation. VECO wants the leveraging start in order that the project can continue.

Representative Croft questioned if the items outlined by Mr. Marquez would come through the negotiations such as the local hire issues.

Mr. Marquez expounded that they would come through the negotiations. These are opportunities for voluntary programs.

Representative Croft noted that the State of Alaska would retain no constitutional power when making requests.

Mr. Marquez replied that under the Stranded Gas Development Act, there remain provisions for the Alaska hire.

Representative Croft inquired if he should move to add a severance holiday to the legislation.

Mr. Marquez replied that was not necessary. However, every incentive offered would increase the chance for the project to get off the ground.

Representative Croft asked when the State would know that they had offered too much.

Mr. Marquez responded that there would be two indications:

- If there is no project, then you would know that you had not given enough; or
- If there is a project, the State would know what the economics are because under Article 4 of the Stranded Gas Act, it is indicated what the opportunity for the Department of Revenue will be.

Representative Croft argued that the State would never know that they had given too much because of the disclosures listed in Section 4.

Mr. Marquez agreed that there is some risk to the State. That risk must be balanced against the non-tax benefits which come from the project.

Representative Harris asked about "access" to the pipeline and the provisions to tap the line.

Mr. Marquez understood that there would be federal managers on the pipeline. There is a provision in the Stranded Gas Act that would allow for the producers to come forward in their application and during the negotiations of the plan. That door provides the opportunity to negotiate.

Co-Chair Mulder indicated that he understood that there was concern regarding the smaller producers who might want to tap into it. He asked if under the Stranded Gas Act, and the expansion rule, if the State would be able to protect the interest of those smaller producers for accessing and placing their gas through the pipeline.

Mr. Marquez responded that access is an extremely complex issue. He understood that Act would "rule" and would provide an "open door" for the State.

Representative Hudson asked how the ballot initiative would be affected.

Mr. Marquez believed that the initiative could empower the State to determine if the project was feasible. He added that the beauty of the gas pipeline is that once it is constructed, there would be opportunity for more lines.

BILL ALLEN, CHAIRMAN, CHIEF EXECUTIVE OFFICER (CEO), VECO CORPORATION, ANCHORAGE, requested that the Vice President of VECO, Mr. Rick Smith, read his testimony. He explained that they were his words but because of an accident, his speech had been impeded.

Mr. Allen added that he was not before the Committee to speak for the producers but rather he was in attendance as an Alaskan. An Alaskan who has fought for local hire, jobs and the State's future.

RICK SMITH, VICE PRESIDENT, VECO CORPORATION, ANCHORAGE, read the comments of Mr. Allen.

Mr. Smith addressed the differences, which involve how best to maximum the benefits for Alaska. He acknowledged that it is a complex issue.

The benefits cannot be measured simply in terms of "net revenues" to the State and local governments. The benefits are the taxes collected minus the incentives given. The formula must include a valuation for new jobs and new economic activity that the gas industry will generate. Mr. Smith explained that the legislation is about a whole new industry for Alaska through the economic diversification.

Mr. Smith stated that there is enough gas on the North Slope to fill a pipeline for the next fifty years. A pipeline that could generate between \$250-\$300 million dollars in revenues each year for the State. He added that over the life of the project, it would ultimately generate between \$12 and \$30 billion dollars for Alaska.

Mr. Smith pointed out that Governor Knowles has tried for years to "negotiate" terms that would get the project underway. Many legislators have devoted their effort in finding a way to make the gas line a reality.

He pointed out that instead, Prudhoe Bay is declining. Alaska's traditional mainstay industries, timber, mining and fishing, are locked up in a struggle for their survival. In short, the State's economic prospects are looking grim.

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Mr. Smith contended that Alaska desperately needs a gas pipeline and the jobs and economic stability that it will bring. A number of years ago, with prices soaring, it seemed that the project was a sure thing. Unfortunately, now the economics have changed and because of the current prices, the project does not appear feasible. He pointed out that international competition increases each year.

Mr. Smith pointed out that producers have made it clear that without State and federal incentives, they cannot justify investing the \$20 billion dollars in a project that carries such a tremendous risk.

Mr. Smith pointed out that Alaska's congressional delegation is working hard to pass the necessary federal incentives and have implied that it is very important that the State of Alaska quickly do the same. Producers have indicated that the incentives in HB 519 combined with federal action, would be enough to get the project started. Passage of HB 519 would send a clear signal to producers and Washington D.C., that Alaska is willing to "step up to the plate" and invest in our future.

Mr. Smith concluded that as elected officials, the legislators must decide what incentives are appropriate. He suggested they bear in mind the value of the project to the State. He recommended that legislators consider the number of jobs, the tremendous long-term economic growth and the future prosperity such a project could bring.

KEN KONRAD, (TESTIFIED VIA TELECONFERENCE), SENIOR VICE PRESIDENT, GAS FOR BP EXPLORATION ALASKA INC., ANCHORAGE, testified that creating a supportive government framework is an essential ingredient toward developing a successful ANS gas project. He acknowledged that an international project of such magnitude brings many risks adding that government working constructively with the industry could play a major role in reducing those risks by establishing clear and predictable rules under which the project is undertaken.

Mr. Konrad stated that BP, with their partners, has laid out key government actions that would facilitate future investment on such an undertaking. It would provide specifically:

- A clear and efficient federal regulatory process. Progress is being made with Alaska gas provisions currently part of the pending U.S. Senate energy bill.
- An efficient and predictable Canada/First Nations regulatory process. BP remains very active working in Canada to establish such a process and progress is being made.
- A simple, clear, and predictable fiscal framework in Alaska such that the massive, long payout investments being contemplated, could be undertaken with the knowledge that the rules will not change.

Mr. Konrad advised that HB 519 could be a positive step

toward achieving the necessary fiscal framework in Alaska. The bill is modeled after HB 393, which was passed in 1998.

He continued that HB 519 and the Stranded Gas Act could:

- Demonstrate leadership and intent by the legislature to provide stable fiscal terms that encourage development of Alaska North Slope (ANS) gas while fully and fairly compensating the people of the State.
- Establish a protocol, beginning with an application, and followed by a process to exchange information between investors and the State.
- Empower the State to enter into contract negotiations to achieve clear and simple tax royalty terms. Subsequently, those terms would need to be approved by both the executive and the legislature branch.
- Provide a process for the State and investors while providing for municipal input.
- Provide for contract review, approval, and termination provisions, inclusive of municipal input, legislative authorization, and judicial review.
- Provide for prioritization of State agency support for a qualifying project.

Mr. Konrad suggested that these guidelines would establish a thoughtful and workable framework important for addressing fiscal issues subject to subsequent approval by the legislature.

Mr. Konrad thought that the bill could encourage Alaska hire, training, and purchasing. BP supports the use of in-state capabilities, however, some technical modifications should be considered to ensure that the bill's language does not draw legal challenge. He stated that the changes to the bill were an improvement and that passage of HB 519 would send a positive message to investors.

Vice-Chair Bunde asked how recent Congressional action would impact the viability of the gas pipeline project.

Mr. Konrad responded that action was a vital step and that it moved the legislation in a positive direction. He anticipated that the energy bill could pass from the U.S. Senate and then be reconciled in the House. If approved, it would complete one of the three legs of the government framework provisions. HB 519 addresses the State of Alaska's portion.

Representative Croft asked if there were provisions included in the federal legislation to address repayment of the tax credits.

Mr. Konrad understood that the tax credits would "kick in" when there are low prices. He noted that it is not clear that the federal government would offer the tax benefits.

JOE MARUSHACK, VICE PRESIDENT, ALASKA NORTH SLOPE (ANS) GAS COMMERCIALIZATION, PHILLIPS PETROLEUM COMPANY-ALASKA, ANCHORAGE, testified that there are two major things that HB 519 could accomplish.

- It would revive the stranded gas development act "process" passed by the Alaska Legislature in 1998.

That process could help progress the project. It was a negotiated and thoroughly debated process, which will provide an opportunity for fiscal clarity and certainty that is essential to move a gas pipeline project forward. That process provides for public notice and comment. It also provides for legislative approval of any agreement between the State and the project's sponsors.

- The second thing the proposed legislation would do is provide property tax abatement during the construction period and the first two years of operation of a gas pipeline project.

That aspect of the bill sends a clear signal to U.S. Congress, who are currently considering national energy legislation.

Mr. Marushack noted that for the past several months most of Phillips Gas emphasis has been directed toward the federal level in order to achieve congressional legislative changes needed to advance this project. These items include:

- New federal legislation that creates permitting certainty and is part of a Senate energy bill.
- A federal tax mechanism that could help mitigate the market risk of a project this large. That would downside the mitigation.

Mr. Marushack claimed that HB 519 could send a positive response to Washington, D.C. He spoke to the property tax portion of the bill. Mr. Marushack stated that Alaska should clarify that the property tax abatement proposed in HB 519, would not be the single difference in the economics of the project. Clearly, it adds value and would lower the

tariff, increasing wellhead value and increasing the State's royalty value. Passage of HB 519 would let the rest of the country know that the elected representatives of Alaska are willing to do what they can to try to make the project happen. Additionally, it could improve the project's viability.

Mr. Marushack noted that they support revival of the Stranded Gas Act and the declaration of support implied by the property tax abatement in HB 519. He urged the House Finance Committee to quickly pass it from Committee.

RHONDA BOYLES, (TESTIFIED VIA TELECONFERENCE), MAYOR, FAIRBANKS NORTH STAR BOROUGH, FAIRBANKS, spoke in support of a gas pipeline and property tax exemptions during the construction period to gain the possibility of 35 years of property tax and some stability. She stressed that Interior Alaska desperately needs natural gas. Ms. Boyles added that it is important to establish an environment that is conducive to economic development and diversification. Decisions must be made with the idea of an economic incentive. Ms. Boyles stressed that it is important to send a message to the entire State, that Alaska is open for business.

Ms. Boyles emphasized that she supports economic incentives. She commented that Alaska should not assume that the municipalities would be hesitant to come to the table. The municipalities need a seat at the table to help determine the long-term decisions. Ms. Boyle recommended that the Committee set aside any agenda, territory issues, personal desires and consider the future of the State. Alaska needs a gas line and viable project.

JOHN ELLWOOD, (TESTIFIED VIA TELECONFERENCE), EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, FOOTHILLS PIPE LINES LTD., ANCHORAGE, commented that because of the size and complexity of an Alaska North Slope natural gas project, issuance of a right-of-way lease for such a project under the Alaska Right-of-Way Leasing Act, AS 38.35, involves unique legal and administrative considerations. As a result, Foothills believes that certain statutory changes are needed in order to provide clarity to the process for consideration of a right-of-way lease application for the Alaska North Slope gas project.

Mr. Ellwood stated that in the context of the effort to finalize a State right-of-way lease for the Alaska Highway Project, certain issues have come up with respect to getting a lease for a gas conditioning facility to condition gas prior to its entering into the linear pipeline. In order to address the issues, Foothill's has suggested an amendment to HB 519 that would clarify the ability of the Department of Natural Resources Commissioner to phase administrative

review, analysis and findings under the Alaska Right-of-Way Leasing Act. That action would permit action on pending lease applications. He noted that the change was necessary to clarify and add predictability. It would be in the State's best interest.

Mr. Ellwood discussed that a lease application is currently pending for the use of State lands for a gas conditioning facility for the Alaska Highway Project under the Right-of-Way Leasing Act. He added that lease application was separate from the lease application for the linear pipeline. There are several reasons for pursuing a lease for the conditioning facility separately from a lease for the linear pipeline. The timing of ground-disturbing activities for the conditioning facility differs from that associated with the linear pipeline. Moreover, the stipulations appropriate for the linear pipeline differ significantly from those appropriate for the conditioning facility.

Mr. Ellwood added that considerable uncertainties remain with respect to the conditioning facility. Until commercial negotiations with the producers are concluded, it will not be known:

- Who will construct and/or own the facility;
- Whether custody to the gas would be transferred at the inlet or the outlet of the facility; or
- To what extent the ANGTS could and/or will utilize a portion of the producers' existing North Slope facilities.

Mr. Ellwood continued, despite those factors that weigh in favor of prosecuting the application for a gas conditioning facility separately from the application for the linear pipeline, the lack of express authority to phase administrative review, analysis and findings under AS 38.35 for an Alaska North Slope gas project could prevent the Department of Natural Resources from conducting such a phased review, even though it might be in the best interests of the State. Alternatively, in the event that the Department was to decide to prosecute the applications separately, under the Alaska Supreme Court case law addressing the permissible use of phasing or segmentation in the State permitting and land disposal decisions, the Department could be exposed to legal challenge for improper phasing.

Mr. Ellwood stated that in order to address the issues, they proposed an amendment, which would provide the Department the necessary authority to limit the scope of its administrative review, analysis and findings for a proposed lease of land that pertains to a discrete phase of an Alaska

North Slope natural gas project, following a southern route, and providing that certain conditions are met. The conditions are:

- The only uses to be authorized by the proposed lease are part of the discrete phase;
- Before the next phase of the project may proceed, public notice and the opportunity to comment must be provided under regulations adopted by the Department of Natural Resources Commissioner unless the pipeline is subject to a consistency review under AS 46.40, public notice and the opportunity to comment are provided under AS 46.40.096@;
- The Commissioner's approval required before the next phase of the project may proceed; and
- The Commissioner describes the reasons for a decision to phase.

Mr. Ellwood claimed that the conditions would ensure that the best interests of the State were served by the Department's decision to phase.

KEN THOMPSON, (TESTIFIED VIA TELECONFERENCE), PRESIDENT, PACIFIC RIM LEADERSHIP DEVELOPMENT, LCC., ANCHORAGE, advised that HB 519 would apply to a tax incentive. He stated that it would propose authorizing priority treatment and providing certain tax exemptions.

Mr. Thompson voiced support HB 519 if the following changes were made:

- Ensure the application deadline be no later than April 1, 2004.

He noted that originally, the deadline was set as June 30, 2005. If such positive incentives as the tax exemptions, which are worth millions of dollars, are indeed approved by the State, the State should insist upon a quicker decision to move ahead with the gas project or pull the incentives off the table. He added that the producers may argue that they cannot commit to reaching an agreement by April 1, 2004.

Mr. Thompson stressed that the bill should not be passed without a firm "line in the sand". The producers only get the benefits in return for acting by the end of next year or in early 2004, which is the 25th anniversary of the startup of Prudhoe Bay. He claimed that the State has given the producers more than a "reasonable length of time" for meetings, studies and speeches. If the tax exemptions are

provided, then the State should ask for one thing in return and that is "An approved project underway by April 1, 2004".

- Grant the property and sales tax exemption only to a well-defined gas project, i.e. only to selected facilities and the main gas trunk line.

Mr. Thompson stated that the original draft allowed for tax exemptions for "related facilities". He stated that language was too broad and suggested wording to clarify what investment is granted:

"The property and sales tax exemption granted by this Act applies only to the following facilities: the new natural gas trunk line in Alaska downstream of the new Prudhoe Bay natural gas conditioning plant and related new compressor stations; and select components, but not all, of the new Prudhoe Bay natural gas conditioning plant that specifically relate to conditioning of the gas to remove impurities to get 'pipeline quality' gas for pressurized shipment down the main trunk line."

Mr. Thompson advised that components of the natural conditioning plant that are used for ancillary economic purposes are not exempt from property or sales taxes. Likewise, other secondary pipelines, gathering lines, or other facilities on the North Slope, upstream from the new Prudhoe Bay gas conditioning plant, are not exempt from property or sales tax by the bill and are considered a stand-alone field or facility development.

- Limit the outright incentive exemption from property and sales tax to the period of pipeline construction only.

He added that consideration should be allowed for an additional two years of tax exemption after gas line startup.

Mr. Thompson pointed out that the most controversial part of HB 519 was the outright granting of hundreds of millions of dollars of property tax and sales tax exemptions without gas project investors having to show economic data verifying the absolute need for a tax exemption to achieve an acceptable investors' rate-of-return. Proponents of the bill argue that the State must grant outright tax relief to help make the project viable and to send a strong signal to the U.S. Congress that Alaska is doing its' share to help the gas project.

He noted that opponents of the bill as written argue that the State should not give away hundreds of millions of

dollars of tax relief without gas project investors actually showing economic calculations that the relief is needed for an acceptable return. Perhaps the most controversial portion of HB 519 is the outright granting of property tax and sales tax exemption dollars without gas project investors having to show any economic data verifying the absolute need for tax exemption to achieve an acceptable investors' rate-of-return.

Mr. Thompson proposed a compromise. The State must grant some substantial incentive to help "jump start" the gas project with billions of dollars of investments at stake. However, there should not be tax exemption after the calendar year of gas sales startup, without proof of economic need. To compromise, Mr. Thompson recommended allowing an outright grant of property tax exemptions during construction and through the calendar year of the gas line startup. At the time of startup, if factors indicate the project rate-of-return is not acceptable, the investors could apply to the DNR Commissioner for an additional two years property and sales tax exemptions, conditioned upon showing economic data indicating the need for additional tax relief. Mr. Thompson stressed that now is the time for action.

PAMELA LA BOLLE, PRESIDENT, ALASKA STATE CHAMBER OF COMMERCE, JUNEAU, testified that the Alaska State Chamber represents 35 local chambers and 700 businesses, most of whom are small businesses deeply concerned with the economic future of Alaska. She noted that as the "Voice of Alaska Business", the Chamber appreciates the opportunity to address bills of importance to the economic development of the State. The Chamber's top five priorities include urging the Legislature and the Governor to encourage the producers to proceed with development of a southern gas line route through Alaska.

The Chamber supports passage of HB 519 and urges its passage. Alaska needs a gas pipeline. For members to have business thrive, resources must be developed. With the defeat of Alaska National Wildlife Refuge (ANWR) in the U.S. Congress, there are no other large developments on the horizon that would spur the growth of the economy.

Ms. LaBolle commented that the State and local governments would benefit greatly for years to come if we can encourage producers to take the risks inherent in developing the North Slope gas resources by building a project through Alaska. The temporary tax exemption provided by the bill should be looked upon as an investment by the State and the municipalities to encourage the producers to move forward with a project, which will create jobs, benefit municipalities, spur economic opportunity for businesses and start a whole new gas industry.

Ms. LaBolle discussed that by revitalizing the Alaska Stranded Gas Development Act and having it apply to the project, the State and producers could create a contract that would assure tax clarity. She encouraged passage of the bill.

Co-Chair Williams stated that HB 519 would be HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 4:46 PM