

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS**

April 2, 2001
10:17 a.m.

MEMBERS PRESENT

Representative Scott Ogan, Chair
Representative Hugh Fate, Vice Chair
Representative Fred Dyson
Representative Mike Chenault
Representative Gretchen Guess

MEMBERS ABSENT

Representative Vic Kohring
Representative Reggie Joule

COMMITTEE CALENDAR

HOUSE BILL NO. 9

"An Act amending the standards applicable to determining whether a proposed new investment constitutes a qualified project for purposes of the Alaska Stranded Gas Development Act; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 83

"An Act relating to natural gas pipelines, providing a statutory definition for the portion of the constitutional statement of policy on resource development as applicable to the development and transportation of the state's natural gas reserves, amending Acts relating to construction of natural gas pipelines to require conformance to the requirements of the statutory definition, and amending the standards applicable to determining whether a proposed new investment constitutes a qualified project for purposes of the Alaska Stranded Gas Development Act; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 38

"An Act amending the application deadline, and the standards applicable to determining whether a proposed new investment constitutes a qualified project, for purposes of the Alaska

Stranded Gas Development Act; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

PREVIOUS ACTION

BILL: HB 9

SHORT TITLE:STRANDED GAS DEVELOPMENT PROJECT

SPONSOR(S): REPRESENTATIVE(S)GREEN

Jrn-Date	Jrn-Page		Action
01/08/01	0026	(H)	PREFILE RELEASED 12/29/00
01/08/01	0026	(H)	READ THE FIRST TIME - REFERRALS
01/08/01	0026	(H)	O&G, RES
01/08/01	0026	(H)	REFERRED TO O&G
01/30/01		(H)	O&G AT 10:00 AM CAPITOL 124
01/30/01		(H)	Heard & Held
01/30/01		(H)	MINUTE(O&G)
01/30/01		(H)	MINUTE(O&G)
02/01/01		(H)	O&G AT 10:00 AM CAPITOL 124
02/01/01		(H)	Scheduled But Not Heard
02/13/01		(H)	O&G AT 10:00 AM CAPITOL 124
02/13/01		(H)	Heard & Held
02/13/01		(H)	MINUTE(O&G)
02/13/01		(H)	MINUTE(O&G)
03/30/01		(H)	O&G AT 8:00 AM CAPITOL 124
03/30/01		(H)	Meeting postponed
04/02/01		(H)	O&G AT 10:00 AM CAPITOL 124

BILL: HB 83

SHORT TITLE:NATURAL GAS RESOURCES DEVELOPMENT

SPONSOR(S): OIL & GAS

Jrn-Date	Jrn-Page		Action
01/19/01	0130	(H)	READ THE FIRST TIME - REFERRALS
01/19/01	0130	(H)	O&G, RES
01/19/01	0130	(H)	REFERRED TO O&G
01/30/01		(H)	O&G AT 10:00 AM CAPITOL 124
01/30/01		(H)	Heard & Held
01/30/01		(H)	MINUTE(O&G)
02/01/01		(H)	O&G AT 10:00 AM CAPITOL 124
02/01/01		(H)	Heard & Held
02/01/01		(H)	MINUTE(O&G)
03/28/01		(H)	O&G AT 3:00 PM CAPITOL 124

03/28/01	(H)	Heard & Held MINUTE(O&G)
03/30/01	(H)	O&G AT 8:00 AM CAPITOL 124
03/30/01	(H)	Meeting postponed
04/02/01	(H)	O&G AT 10:00 AM CAPITOL 124

WITNESS REGISTER

SENATOR JOHN TORGERSON

Alaska State Legislature
Capitol Building, Room 427
Juneau, Alaska 99801

POSITION STATEMENT: Reviewed HB 83 in comparison to SB 164.

MICHAEL HURLEY, Government Relations
North American Natural Gas Pipeline Group
601 West 5th Avenue
Anchorage, Alaska 99501

POSITION STATEMENT: Testified as to NANGPG's view.

ACTION NARRATIVE

TAPE 01-24, SIDE A
Number 0001

CHAIR SCOTT OGAN called the House Special Committee on Oil and Gas meeting to order at 10:17 a.m. Representatives Ogan, Dyson, Chenault, and Fate were present at the call to order. Representative Guess arrived as the meeting was in progress.

HB 9 - STRANDED GAS DEVELOPMENT PROJECT

CHAIR OGAN announced that the first order of business would be HOUSE BILL NO. 9, "An Act amending the standards applicable to determining whether a proposed new investment constitutes a qualified project for purposes of the Alaska Stranded Gas Development Act; and providing for an effective date."

Number 0065

CHAIR OGAN turned to a memorandum drafted by Jack Chenoweth, Assistant Revisor, Legislative Counsel, Legislative Legal and Research Division, Legislative Affairs Agency, [which addresses] a discussion regarding the legislature's powers under the Stranded Gas Development Act. The short answer [embodied in Mr. Chenoweth's memorandum] is that the legislature cannot negotiate the terms, but would have the final decision to authorize

execution or withhold authorization to execute the agreement. This conflicts with testimony from the commissioner of the Department of Revenue who indicated that the legislature would have the ability to negotiate.

[HB 9 was held over.]

HB 83 - NATURAL GAS RESOURCES DEVELOPMENT

[Contains references to SB 164.]

Number 0270

CHAIR OGAN announced that the next order of business would be HOUSE BILL NO. 83, "An Act relating to natural gas pipelines, providing a statutory definition for the portion of the constitutional statement of policy on resource development as applicable to the development and transportation of the state's natural gas reserves, amending Acts relating to construction of natural gas pipelines to require conformance to the requirements of the statutory definition, and amending the standards applicable to determining whether a proposed new investment constitutes a qualified project for purposes of the Alaska Stranded Gas Development Act; and providing for an effective date."

CHAIR OGAN noted that HB 83 has "morphed" into a companion bill to [SB 164].

Number 0270

REPRESENTATIVE FATE moved to adopt CSHB 83, Version 22-LS0322\L, Chenoweth, 3/28/01, as the working document before the committee. There being no objection, Version L was before the committee.

Number 0306

SENATOR JOHN TORGERSON, Alaska State Legislature, testified as sponsor of SB 164 [the companion to HB 83]. Senator Torgerson explained that upon review of the bill [HB 83], he saw that it contained two sections [not included in SB 164] one of which included local hire provisions, which he felt fit into the context of the bill. The other section, which he doesn't believe fits with the intent of the bill, is located on page 3, subparagraph (b). Although he believes that the [state] may end

up requesting that the line have excess capacity, he believes that the state would have to pay for it.

SENATOR TORGERSON, in response to Chair Ogan, explained that [SB 164] amends the declaration of legislative policy that is found in statute dealing with the right-of-way leasing provisions. It merely adds four or five other components to the legislative policy declaration. He pointed out that Alaska's constitution "directs the legislature to provide for the utilization, the development, the conservation of all our natural resources for the maximum benefit of its people." This language wasn't in statute in that particular location before. Senator Torgerson pointed out that the language being discussed is on page 1 though page 2.

SENATOR TORGERSON turned to the top of page 2, lines 3-12, which addresses in-state uses. On page 2, [subparagraph] (B) is a conforming amendment so that sub-subparagraph (i), which is the language addressing the maximum benefit for short-term construction and operation, can be included. [Sub-subparagraph] (ii) is also a conforming amendment. Senator Torgerson explained that subparagraph (C) makes the statement that the line must add long-term property value to the tax base for local state governments. [Paragraph] (2) ensures "that the design, location, and construction of a pipeline" enhance the opportunities listed on page 3, [subparagraph's] (A) and (B). He reiterated that page 3, subparagraph (B) doesn't fit. Senator Torgerson continued with page 3, subsection (b), which is the "real meat and potatoes."

Number 0760

CHAIR OGAN asked if this is similar to the policy the legislature set out with Northstar.

SENATOR TORGERSON pointed out that in the past the legislature has made legislative policy and then made a legislative best interest findings, which was done with Northstar. Although Northstar was challenged, its constitutionality was upheld. There was a similar situation with the Kachemak Bay prohibition against leasing oil and gas [strictly in Kachemak Bay]. Both cases determined that the legislature does have the authority to set policy and direct the commissioner to follow the policy set by the legislature.

CHAIR OGAN surmised then that the legislature isn't treading new ground because there have been legislative findings in the past.

He asked if Senator Torgerson felt that [HB 83] is the same model as in Northstar and Kachemak Bay.

SENATOR TORGERSON replied yes. However, he noted that although this hasn't been done in relation to pipelines, legislative policy and findings have been done in other cases relating to natural resources.

CHAIR OGAN related his understanding that [HB 83] doesn't preclude them from building a northern route, it merely would have to be built after the southern route.

SENATOR TORGERSON agreed with Chair Ogan's understanding.

Number 0917

CHAIR OGAN said that he believes that another bill will come over from the Senate. He noted that the labor language was borrowed from the Northstar agreement. He said he would take out the capacity language, which he felt was more appropriate for the hub discussion that this committee intends to work on over the interim.

SENATOR TORGERSON agreed with Chair Ogan that the capacity language belongs in the southern route or hub discussion. Senator Torgerson noted that there is another piece of legislation that will ask the Department of Revenue to perform a study on owner equity on all or part of the line as well as address other questions.

CHAIR OGAN announced that pending referral of SB 158 to the House Special Committee on Oil and Gas, it will be noticed for next week and expedited as quickly as possible. After determining there were no questions for Senator Torgerson or Larry Persily, Department of Revenue, he asked if it would be a fair assumption that both options will be reviewed by the [North American Natural Gas Pipeline Group].

Number 1180

MICHAEL HURLEY, Government Relations, North American Natural Gas Pipeline Group (NANGPG), answered that that the group believes that it is prudent business to continue to review the routes. Under the Federal Energy Regulatory Commission (FERC) application standards for a certificate of public convenience and necessity there are requirements that alternatives be reviewed. He remarked that a discussion probably needs to occur

with FERC in order to determine what alternatives need to be reviewed. The alternatives that had been identified were the northern route. However, there is legislation that makes that route problematic.

CHAIR OGAN posed a situation in which the southern route is built. In such a case, would it be cost effective to run a pipeline from MacKenzie to Point Thompson or wherever the infrastructure is and pipe the gas east or west.

MR. HURLEY said that he expected that should NANGPG build the southern route, the MacKenzie producers would build their own route south up the MacKenzie Valley. He noted that there is a consortium of MacKenzie Valley producers who are reviewing such, almost independent of what NANGPG does. In further response to Chair Ogan, Mr. Hurley related his belief that the MacKenzie producers includes Exxon, through its Imperial subsidiary in Canada, Gulf Canada, and several of the pipeline companies in Canada have been or may be involved at this point. However, Mr. Hurley wasn't sure who was doing the work now. He recalled that one of the original sponsors had been Shell.

CHAIR OGAN inquired as to whether Exxon is the major holder of the gas.

MR. HURLEY answered that he wasn't sure, although he knew that Exxon held a significant position.

CHAIR OGAN expressed interest in obtaining a breakdown in regard to who owns what percentage of gas.

MR. HURLEY noted that he has seen a report from the Canadian government that he could provide to the chair.

Number 1389

REPRESENTATIVE GUESS pointed out that currently it's against federal law to go north. If HB 83 passes, then it will be against state law to provide leases on the northern route. Therefore, she inquired as to whether FERC could charge that [NANGPG] has looked at the north even though it is illegal and thus [NANGPG] will have to look north in order to obtain a certificate for the south. Also, she inquired as to whether FERC, as a regulatory commission, would force the study of a route that is against federal law and state law, if HB 83 passes.

MR. HURLEY answered, "We're not sure. We haven't had that discussion with them." He echoed his earlier testimony that [NANGPG] isn't sure what alternative FERC would want to see if it didn't want to see [the northern route].

REPRESENTATIVE GUESS reiterated that [the northern route] would be against federal law.

MR. HURLEY said, "Given that you would be making it potentially illegal under state law, FERC has, to the best of my knowledge, not determined that its against federal law to go north."

REPRESENTATIVE GUESS said, "So, we did that in the presidential decision in the Natural Gas [Act]."

MR. MURPHY remarked that this is one of the areas that NANGPG needs to work on this year. There have been several different legal opinions that say several different things. This is an area in which NANGPG is unclear in regard to the true federal requirements.

Number 1510

REPRESENTATIVE GUESS remarked that this seems to be a fairly important question to ask because FERC's role should be understood. If FERC says that the northern route is against the presidential decision and the Natural Gas Act and state, then it may shift NANGPG's focus to what is in the best interest of the company. Since two members have been appointed, has NANGPG decided to move forward and ask the aforementioned question?

MR. HURLEY answered that the federal government will be heavily involved in all of these discussions. Furthermore, NANGPG will speak with the federal government and FERC in regard to their view of how this is to work.

REPRESENTATIVE GUESS asked whether the process to approach FERC in order to understand their role in choosing a representative has been started.

MR. HURLEY replied that there have been discussions with the federal agencies, including FERC. As one would imagine, there is a bit of a "turf battle" in regard to who will be the lead agency in the federal government. He noted that this process will obviously be revised.

Number 1649

CHAIR OGAN inquired as to what Mr. Hurley thought about the provisions in CSHB 83 regarding labor. He also inquired as to whether any of the companies Mr. Hurley represents will have problems with that.

MR. HURLEY responded, "In our view of how this project is going to roll out, we're going to be hiring not only every qualified Alaskan, but every qualified North American to try and get this thing built." In further response to Chair Ogan, Mr. Hurley expressed his hope that Alaskans would be hired first.

CHAIR OGAN urged Mr. Hurley to convey the desire to hire Alaskans first if this project moves forward.

MR. HURLEY noted that discussions within NANGPG have begun with entities involved in training and jobs programs. Mr. Hurley said that [NANGPG] understands the need and the desire of the legislature and the people of Alaska to have as much local labor as possible.

Number 1815

CHAIR OGAN asked if there have been discussions with the University of Alaska regarding meeting the needs of future employees.

MR. HURLEY related his understanding that the university is part of the "APEC" (ph) group. He noted that [NANGPG] has a meeting with them shortly.

CHAIR OGAN related his belief that the University of Alaska should be the premier oil and gas university in the nation and should turn out not only the disciplines in oil and gas but also the trade people. "The University of Alaska should be dedicated to oil and gas research," he charged.

CHAIR OGAN asked if anyone else would like to testify. There was no one else to testify. [HB 83 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at 10:44 a.m.