

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

April 19, 2002

8:10 a.m.

MEMBERS PRESENT

Representative Scott Ogan, Chair (via teleconference)
Representative Hugh Fate, Vice Chair (chairing)
Representative Fred Dyson
Representative Mike Chenault
Representative Vic Kohring
Representative Gretchen Guess
Representative Reggie Joule

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Jim Whitaker

COMMITTEE CALENDAR

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."

- MOVED CSHB 519(O&G) OUT OF COMMITTEE

PREVIOUS ACTION

BILL: HB 519

SHORT TITLE:NATURAL GAS PIPELINE: SPECIAL PROVISIONS

SPONSOR(S): RLS

Jrn-Date	Jrn-Page		Action
04/16/02	2952	(H)	READ THE FIRST TIME -

			REFERRALS
04/16/02	2952	(H)	O&G, RES, FIN
04/16/02	2952	(H)	REFERRED TO OIL & GAS
04/19/02		(H)	O&G AT 8:00 AM CAPITOL 124

WITNESS REGISTER

REPRESENTATIVE PETE KOTT
 Alaska State Legislature
 Capitol Building, Room 204
 Juneau, Alaska 99801

POSITION STATEMENT: Presented HB 519 as chairman of the House Rules Standing Committee, sponsor of the legislation.

PAT POURCHOT, Commissioner
 Department of Natural Resources
 400 Willoughby Avenue, Fifth Floor
 Juneau, Alaska 99801-1724

POSITION STATEMENT: Testified on HB 519, noting that he chairs the governor's Natural Gas Cabinet; spoke against granting this tax "holiday" or waiver outside a negotiated process, but in support of sections that reactivate and expand the Alaska Stranded Gas Development Act.

LARRY PERSILY, Deputy Commissioner
 Office of the Commissioner
 Department of Revenue (DOR)
 P.O. Box 110400
 Juneau, Alaska 99811-0400

POSITION STATEMENT: Testified on HB 519; proposed changes; conveyed DOR's preference for reauthorizing the Alaska Stranded Gas Development Act instead of waiving \$500 million in taxes; explained how the broadness of "related facilities" may impact the fiscal note.

DAVID MARQUEZ, Attorney
 for VECO Corporation
 18546 Osprey Circle
 Anchorage, Alaska

POSITION STATEMENT: Urged passage of HB 519.

RHONDA BOYLES, Mayor
 Fairbanks North Star Borough (FNSB)
 P.O. Box 71267
 Fairbanks, Alaska 99707

POSITION STATEMENT: Testifying as mayor and a businessperson, called HB 519 imperfect but "one leg of a three-leg stool"; said

a waiver during construction is reasonable, but so are discussion of both recoupment during operation and "socioeconomic impact aid"; said municipalities deserve a seat at the table regarding long-term tax structuring.

BILL ALLEN, Chairman and Chief Executive Office (CEO)

VECO Corporation

3601 C Street

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 519 and answered questions.

PAMELA LaBOLLE, President

Alaska State Chamber of Commerce

217 Seward Street

Juneau, Alaska 99801

POSITION STATEMENT: Urged passage of HB 519.

JACK CHENOWETH, Assistant Revisor

Legislative Legal Counsel

Legislative Legal and Research Services

Legislative Affairs Agency

State Capitol

Juneau, Alaska 99801-1182

POSITION STATEMENT: As drafter of HB 519, Version L, answered questions regarding possible later recoupment and the meaning and implications of "related facilities".

KEN KONRAD, Senior Vice President

BP Exploration (Alaska) Inc.

P.O. Box 196612

Anchorage, Alaska 99519-6612

POSITION STATEMENT: Testified in support of HB 519; suggested that some technical modifications may be needed to ensure there is no legal challenge regarding use of in-state capabilities.

JOE MARUSHACK, Vice President

ANS Gas Commercialization

Phillips Alaska, Inc.

P.O. Box 100360

Anchorage, Alaska 99510-0360

POSITION STATEMENT: Testified in support of HB 519, noting that minor clarifying changes may be needed.

ACTION NARRATIVE

TAPE 02-23, SIDE A

Number 0001

VICE CHAIR FATE called the House Special Committee on Oil and Gas meeting to order at 8:10 a.m. Representatives Fate, Ogan (via teleconference), Dyson, and Guess were present at the call to order. Representatives Chenault, Joule, and Kohring arrived as the meeting was in progress.

VICE CHAIR FATE informed members of a legal interpretation [from Tamara Cook, Director, Legislative Legal and Research Services] that for purposes of making a quorum, a member on teleconference can be counted [for all business except moving a bill from committee].

HB 519-NATURAL GAS PIPELINE: SPECIAL PROVISIONS

[Contains discussion of HB 38 during Commissioner Pourchot's testimony; contains discussion of SB 360 at the end of Mr. Marquez's testimony]

Number 0092

VICE CHAIR FATE announced that the committee would consider 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."

Number 0102

REPRESENTATIVE DYSON moved to adopt the proposed committee substitute (CS), version 22-LS1651\L, Chenoweth, 4/18/02, as a work draft. There being no objection, Version L was before the committee.

Number 0241

REPRESENTATIVE PETE KOTT, Alaska State Legislature, presented HB 519 as chairman of the House Rules Standing Committee, sponsor of the legislation. He explained that there is a window of opportunity to diversify Alaska's economy. This bill provides some incentive for building a gas pipeline during this window,

which he suggested will close after perhaps two or three years because other markets will be available. He reminded members that the producers have formed a working group to look at [a pipeline] and have concluded that the economics aren't right, regardless of what route is chosen.

REPRESENTATIVE KOTT noted that it remains to be seen what will happen with netback provisions in federal statutes. He pointed out that at the state level, however, Alaskans can collectively support a gas pipeline, which will mean a lot to the state's economy, especially since there is an earnest search underway for additional revenues to fill a \$1-billion budget gap.

Number 0459

REPRESENTATIVE KOTT referred to Section 1 of the bill, which adds a findings-and-intent section that substantiates the variety of reasons the bill is needed. He recalled that in ten years in the legislature, he'd never before seen a bill that comprehensively lists the intent with substantive findings.

REPRESENTATIVE KOTT characterized this as a simple idea: providing a tax "holiday" on property and sales taxes along the right-of-way if this project goes forward. He alluded to new language in Section 4 of the bill, paragraph (7), and indicated it is based on a date established by the commissioner [of revenue] during the construction phase and ends December [31] of the second full calendar year in operation. He added that it could be seven years, for example, or twelve, depending on the length of the construction phase; he suggested the producers could provide a better idea regarding that.

Number 0581

REPRESENTATIVE KOTT noted that provisions in the bill identify requirements to qualify as a project. In addition, a provision calls for the greatest maximum use of Alaskans to be trained and qualified for the various jobs, and calls for using Alaskan businesses to the greatest extent possible under current law.

REPRESENTATIVE KOTT reiterated the desire to have a tax "holiday" for property and sales taxes. Regarding whether there would be a loss of revenue, he pointed out, there is nothing to be taxed right now, and what will happen in the future is unknown. He offered his belief that a little sacrifice on all sides will be required.

REPRESENTATIVE KOTT compared the current situation to needing to put money into a slot machine in order to get anything back. He concluded, "If we want to get a pipeline built and we want to get some revenues generated - which, in ... a conservative estimate will be about 50 years, and it could be a lot longer than that - we're going to have to put something in." He noted that other testifiers could address technical aspects.

Number 0775

REPRESENTATIVE OGAN, speaking via teleconference, noted that the Department of Revenue has characterized the bill as a tax waiver, rather than a holiday; unlike the Alaska Stranded Gas Development Act, this doesn't have a mechanism to recoup that foregone revenue.

REPRESENTATIVE KOTT agreed it is a waiver of taxes as well, but indicated he has heard the term "holiday" being used.

Number 0885

PAT POURCHOT, Commissioner, Department of Natural Resources (DNR), came forward to testify, noting that he also chairs the governor's Natural Gas Cabinet. He told members the administration doesn't support the provisions of HB 519 that provide a grant of up to \$500 million in state and local property taxes - as either a "holiday" or a waiver - outside of a negotiated process that takes into account not only the economic necessity of providing the incentives, but also other issues of importance to the state.

COMMISSIONER POURCHOT reported that on the other hand, the administration supports the provisions that reactivate and expand the Alaska Stranded Gas Development Act, which was proposed by the governor several years ago and enacted by the legislature in 1998; he indicated those were in Sections 9 and [10] of the bill. He noted that the governor has another bill, HB 38, similar to those sections; it would move the "starting of the operational date of that Act up" and also expand it to include all kinds of natural gas projects, not just LNG [liquefied natural gas], as the original Act provided for. He told members:

We see that negotiating framework that's set up in the Act, as expanded and reactivated in this bill, as a way of bringing in economic information into the decision making on whether to grant this type of

economic incentive or other types dealing with, perhaps, severance tax, ways of valuation of gas, and other things that the Stranded Gas Development Act speaks to. ...

Also, that Act sets up a framework that would allow the state to bring other things to the table. Clearly, there's interest in issues like local hire, access to gas, use of the state's royalty, that we feel would be very much a logical and necessary part of any kind of larger negotiation on incentives for advancement of a gas line.

The Stranded Gas Development Act also has a mechanism for bringing in municipal interests. And clearly, when \$250 or \$300 million of potentially waived locally property taxes are involved, there certainly would be a role, it seems, for the municipal governments involved.

Number 1065

COMMISSIONER POURCHOT continued:

This ... negotiated approach involving economic information isn't new. We and the legislature addressed that in the marginal-fields legislation several years ago. It was addressed and discussed at length in the Northstar legislation, of trying to assess the economics of the project and how incentives would or wouldn't help a project become a reality. So we think that there are ways of providing state incentives for the gas line. We want to approach those ... in a framework that makes sense and looks at all available information.

Number 1130

The particular tax incentive that's mentioned in this bill - property tax "holiday" or property tax waiver - was, indeed, something that was pointed to by our consultants in a fairly comprehensive study by Pedro van Meurs several years ago. He pointed to property tax as being perhaps the most single significant tax that should be looked at for possible ... change to advance a gas line, in that it's ... a very regressive tax and comes at a very inopportune time in a project

life, in that property taxes are being assessed during construction and before revenues flow from a completed gas line.

His ideas, however, ran not to an out-and-out grant of ... an exemption from all those taxes, but to change the front loading, if you will, of those taxes to perhaps a back-loaded system where the state, and perhaps municipalities, could recoup deferred property taxes down the road of a project when revenues were flowing, and it would be less onerous to project sponsors.

COMMISSIONER POURCHOT concluded by offering that there are better ways to approach this, already used by the legislature in its approach to similar issues. He indicated Larry Persily of the Department of Revenue could address fiscal impacts.

Number 1253

REPRESENTATIVE JOULE asked whether Commissioner Pourchot has received any of the producers' findings regarding the construction of a [gas] line.

COMMISSIONER POURCHOT said no.

VICE CHAIR FATE thanked Commissioner Pourchot and called on Mr. Persily.

Number 1291

LARRY PERSILY, Deputy Commissioner, Office of the Commissioner, Department of Revenue (DOR), testified via teleconference. He agreed with what Commissioner Pourchot had said, then told members:

What the [Alaska] Stranded Gas Development Act envisioned and what it included when it was passed in 1998 was to authorize the state to negotiate a contract for payments in lieu of taxes with a developer of a gas project so that we could make it more affordable at the beginning, at the early stages - give them incentives by deferring or restructuring the state's fiscal regime, so that during the construction, when ... it's all outlay and there's no revenue, during the early years where there's not a positive cash flow, the state's take would be lower.

The project developer would be able to use the cash that starts coming in, in the early years of production, to recoup their expenses. But in later years, when the line is more profitable, when cash flow is positive and when prices are high, the state would share in those benefits and would take a higher percentage. So, it'd make the state system more progressive, rather than regressive, which ... we are now, as Commissioner Pouchot explained, by lumping property taxes on.

For the committee, ... the assessment of property taxes for [the] state and municipalities begin the day that first piece of pipe hits the dock and gets unloaded. So under the existing statute, it's correct: whoever builds this project would pay property tax on pipe, related equipment, from the first day they start mobilizing for construction. It would be years before there's positive cash flow.

So that part of the intent of this legislation we agree with, because it does match the Stranded Gas Development Act of 1998, which, by the way, expired last year; it had a deadline of June 30, 2001, and no one applied, as we know - no one offered to build a gas line. So that Act would need to be reauthorized, which this legislation does by extending the application date to June 30, 2005.

Number 1440

MR. PERSILY continued:

What the Department of Revenue would prefer is, rather than ... waiving \$500 million or more in state and municipal property taxes without getting anything in return, we would prefer just to reauthorize the Stranded Gas Development Act that says we can sit down, figure out what is needed to make a project economical, what is needed for someone to make the decision to go ahead and lay out \$10 or \$15 or \$20 billion - what the state can do to help with that - and then, in return, when cash flow's positive, when prices are higher, what the state can get back.

The state - and particularly the municipalities - will face some heavy costs during the construction cycle. We all remember from the oil pipeline: police, fire [protection], schools, roads. To give away property tax and sales tax for all those years, which this legislation does, is going to place a burden on the state and particularly on municipalities. And we would prefer just to go back to the original wording of the Stranded Gas Development Act, which allows us to negotiate a contract for payments in lieu of taxes.

Number 1524

MR. PERSILY offered concluding remarks and recommendations:

We feel this is premature, and we would strongly recommend a change in that property-tax-waiver provision to include an opportunity for the state to share in the potential benefits from a highly profitable project, as part of any package for tax relief, provide an opportunity for the affected communities to participate in those tax-relief discussions, and some sort of needs test so that the state doesn't give up more in tax revenue than is needed. I think any project developer would be willing to admit that they would be happy to pay their fair share, a reasonable share. But taking it down to zero for six or seven years, in our opinion, does not meet that fair-share test.

Number 1558

MR. PERSILY explained why the fiscal note may be higher than the amount submitted:

The legislation, in granting the tax waiver, we think is very broad in terms of defining the North Slope natural gas project as the pipeline and any related facilities. That could include an awful lot besides just the pipeline, compressor stations, conditioning plant on the North Slope. What if wells are converted from oil to gas, petrochemical construction - you could end up giving away more than the \$500 million-plus than we had estimated in the fiscal note.

Number 1597

REPRESENTATIVE JOULE asked whether Mr. Persily was indicating he might change the fiscal note if there is a broader application.

MR. PERSILY reiterated part of his earlier explanation, adding that the department has only recently come to realize the potential broadness of "related facilities". He said the fiscal note for [Version L] probably would be expanded, therefore, "because the potential for more lost revenue is very real."

Number 1656

REPRESENTATIVE OGAN alluded to the analysis section of the DOR's fiscal note submitted by Mr. Persily the previous day; he said he shared some of those concerns. Before reading it, he explained, he'd been under the impression that [HB 519] follows the Alaska Stranded Gas Development Act, with which he is familiar from being a member of both this committee and the House Resources Standing Committee for eight years; he recalled the arduous task of reviewing the Pedro van Meurs study and spending hundreds of hours in hearings. Speaking of that Act, he remarked, "I was a little uncomfortable with it then, but I had a good feeling about it because there was an ability, on an upside, to recoup the money." He said [HB 519] departs from that philosophy because there is no recoupment. He asked Mr. Persily whether he also interprets this as a waiver of taxes.

MR. PERSILY replied, "Yes, that's how we interpret it. There's no ability to recoup, no ability to negotiate anything."

Number 1774

REPRESENTATIVE OGAN referred to [feasibility] studies by the producers. He recalled requesting, early in the year, that the producers bring forth their economic models to the committee, which hadn't happened. He asked Mr. Persily whether he'd seen any economic models from the studies of that working group [which consists of the three large producer companies: BP Exploration (Alaska) Inc.; Phillips Alaska, Inc.; and ExxonMobil Corporation].

MR. PERSILY responded, "I myself haven't. We have had our economist here see some sketchy models. But no, the producers have not shared everything with us."

REPRESENTATIVE OGAN said that distresses him somewhat "because they're asking for a big chunk here, with no ... models." He offered his understanding that all three companies in the

working group must agree [in order to provide information], but that one company wouldn't; therefore, he would ask testifiers which company hadn't agreed, and why they won't show the models.

VICE CHAIR FATE requested that Mr. Persily be available to answer questions. He noted that Mark Myers, Director, Division of Oil & Gas, DNR, was online to answer questions as well.

Number 1901

DAVID MARQUEZ, Attorney for VECO Corporation, came before the committee to urge passage of HB 519, noting that VECO Corporation is an Alaskan company headquartered in Anchorage. He told members:

VECO Corporation is an engineering, construction, and oil and gas service company that has been active in the Alaska oil patch for several decades. It has also been a good employer and an active member of the greater Alaska community, participating vigorously in philanthropic and community activities.

VECO urges passage of this bill because it believes that Alaska desperately needs a gas pipeline for its economy. VECO has seen and experienced, over the last 15 years, significant reductions in the oil industry workforce in this state, with the most recent one being announced within the last few weeks by Alyeska Pipeline Service Company. Coincident with all these reductions has been the elimination of contractor positions staffed by employees of VECO. VECO needs a gas pipeline to keep its Alaska employees employed, and hopefully even to increase its workforce.

Number 2010

MR. MARQUEZ continued:

Despite the high costs and huge risks of this project for the development of the Alaska North Slope natural gas pipeline, VECO believes that it is still possible to achieve this dream. Some producers have indicated that work will continue when three legislative actions are taken: first, federal enabling legislation; second, federal legislation that helps reduce the risk of gas prices' cycling to low levels; and third,

Alaska legislation that provides both an incentive and tax certainty and clarity.

As to the federal legislation, some have questioned why federal assistance should be provided if the State of Alaska is unwilling to step forward. House Bill 519 will send a clear signal that the state is willing to participate. It grants a temporary exemption to the project from local and state property taxation under the 20-mill property tax (under AS 43.56) for a period from commencement of the project's construction through the first two years of operation of the pipeline. The bill also calls for expeditious priority treatment by state officials and agencies in support of development and construction of this project.

The bill puts back into the action the Alaska Stranded Gas Development Act that expired last June. This legislation was enacted after a very substantial effort, as Representative Ogan described, by the legislature, the administration, and the industry to encourage the development of an LNG project to commercialize Alaska North Slope gas. House Bill 519 makes it applicable to a North Slope gas line as well as an LNG project, and extends until June 2005 the deadline for filing an application for a contract with the state. Such a contract would be approved by the legislature and would contain provisions addressing the issues of tax-and-royalty clarity and certainty, and other issues important to the parties.

Number 2113

MR. MARQUEZ continued:

A little more on the temporary property-tax exemption provided in the bill: it does not apply to any taxes currently being collected, so present revenues will not be affected by this bill. Only if a pipeline is built and the state enjoys the benefits of that development will the investment of this temporary tax exemption be made. It is temporary and lasts only for the period of construction and the first two years of operations. At its expiration - if this bill, in fact, encourages the producers and a pipeline is built - the state and local governments will have a pipeline

on which to levy taxes for many years; a new industry, a gas industry, will have been created; in-state use of gas will be possible; and Alaskans will be employed. If it is not built, there will not be any of these.

Just a year or so ago, when gas prices were very high, everyone thought the pipeline was just around the corner. Now, reality has set in again, and the project's enormous risks and costs make it very doubtful that it will be built unless action is taken to keep the project alive. VECO, together with Fluor, performed the study for the producers that ... has been referenced. VECO recognizes the great risks involved with the project, but believes that if the state takes action to reduce the risks and costs, we can make it happen.

There may be concern that this will be viewed as a giveaway and that, instead, the state should negotiate with the gas owners before any incentives are given. VECO feels a sense of urgency. If action is not taken this year, the only opportunity for a significant boost to the state economy may be lost. If we take a year or two or three to negotiate any incentives, the opportunity may be lost as the producers move on to other projects. There will be time in the coming years under the Alaska Stranded Gas Development Act to negotiate, but VECO believes concrete action must be taken this year to keep the project going.

Number 2239

MR. MARQUEZ continued:

Further, the bill requires that the producers must meet certain conditions to be eligible for the temporary tax exemption. First, it must be a pipeline that follows the southern route. The bill lists six other conditions, including compliance with the federal Acts relating to the natural gas pipelines. Amendments [to those Acts] ... would be favorable to Alaska and are being currently considered with the pending federal enabling legislation. And [the bill] includes Alaska ... hire, buy, and build.

The Alaska Stranded Gas Development Act, which this bill reopens, provides the opportunity for tax-and-royalty certainty and clarity that will benefit both the state and the producers. The state and the oil owners were locked in long, costly, and antagonistic disputes over issues relating to the determination of taxpayers' liability for severance tax and royalty. VECO has been informed that the producers strongly desire that such disputes be avoided as to gas [and] that the risk associated with [tax-and-royalty] uncertainty and lack of clarity is one more risk that ... burdens this already risky project.

The stranded gas Act provides a good process for the state and producers to negotiate such clarity and certainty; in fact, it offers the opportunity to negotiate what tax regime would be in the long-term fiscal interest of the state, while accommodating affected municipalities and the project sponsors under a wide range of economic conditions, potential structures, and marketing arrangements. And the legislature has the power to authorize execution of the contract. The Act gives the municipalities an important role through the formation of a municipal advisory group.

Number 2323

MR. MARQUEZ concluded:

In summary, House Bill 519 is crucial and contains perhaps the only chance left to try to keep the possibility of a gas line project alive for the next few years, or it may be decades before the opportunity arises again. VECO also wants to make it very clear that it does not consider this to be a "producer bill." This is an Alaska bill that provides for a short-term investment by Alaska that will pay off in a project that could be shipping gas for a hundred years.

Listening to the previous testimony, ... it seems clear that we agree that an incentive is necessary for this pipeline [and] that the most leveraging incentive would be ... an exemption from the property tax. And really, this bill comes down to the philosophy of timing. VECO believes that it is very important that

a signal be sent, this year, that Alaska wants this pipeline. The Stranded Gas Development Act provides the opportunity to negotiate later, and we believe the producers will want to use that bill in order to attain tax certainty and clarity. And the whole tax regime can then be addressed.

VICE CHAIR FATE reminded testifiers they could either fax written testimony or provide it in person [to the committee aide].

Number 2428

REPRESENTATIVE OGAN told Mr. Marquez he appreciates his testimony and supports doing whatever possible to "jump-start" this project. He referred again to the analysis in the DOR's fiscal note, however, and said there is no way to recoup revenue [when there are profits] under this bill. He also referred to a previous recommendation by Pedro van Meurs to "give a tax holiday on these ad valorem taxes." Representative Ogan indicated there previously had been no objection by the producers to the state's having the ability to recoup money later; to his reading, though, this bill lacks that ability. He asked Mr. Marquez whether VECO Corporation would object to the concept of letting the state recoup lost revenues later on, when the pipeline is operating and making money.

MR. MARQUEZ answered:

I disagree with you, in your analysis of the bill, because ... if this tax exemption - temporary tax exemption - is granted, I think that will send a signal that could very well spur continuation of work on this pipeline. I also think that it's very important for the producers ... to achieve tax certainty and tax clarity, and the same for royalty. So, I believe that they will, right away, want to come in and use the Stranded Gas Development Act in order to obtain important tax clarity and tax certainty.

When that happens, it seems to me, under the Alaska Stranded Gas Development Act that you worked so hard on - and as a former employee of ARCO Alaska, Inc., I appreciate all the hard work you put into that bill - that will present the opportunity for everything to be on the table, and for the whole tax regime for the

pipeline to be negotiated. And I think that would be possible, for there to be a recoupment later.

VECO's position is, let's grant this incentive. Let's send a signal and negotiate later, rather than spending a year or two or three ... negotiating now, perhaps at some point arriving at some sort of incentive, but perhaps missing the train - the train has left the station because these large producers have other projects that they'll turn their attention to.

Number 2613

REPRESENTATIVE OGAN said he agreed wholeheartedly with Mr. Marquez's last statement and was willing to seriously look at doing that. He respectfully disagreed, however - based on the DOR's information, especially - that there is an ability to negotiate later to recover some of the money. He proposed that the current committee should work on that issue to make sure members know what will happen if this bill passes.

Number 2648

VICE CHAIR FATE inquired about Mr. Marquez's assessment of whether this bill is needed before or after the proposed final amendments to the energy legislation before Congress.

MR. MARQUEZ offered his understanding that Congress would be turning attention to aspects of gas development in that energy legislation, but said he believes it is likely that a final package of energy legislation would be enacted after the end of Alaska's legislative session. He said that is why VECO Corporation would like Alaska to send a signal before adjournment of this current session, so that the rest of the country can see that Alaska wants this pipeline. He added that the federal legislation may not pass - including going to a conference committee - before summer or later.

Number 2723

REPRESENTATIVE GUESS noted that Senator Torgerson has put a lot of time into the Joint Committee on Natural Gas Pipelines, and that [the Senate Resources Standing Committee] has just introduced a bill [SB 360] similar to [HB 519] in some ways. She asked Mr. Marquez why the legislature should favor this approach in HB 519, which offers an incentive because it isn't

economic otherwise, versus the approach of [SB 360], which says, "Show us it's not economic before we give you an incentive."

MR. MARQUEZ responded:

I think one of the issues with Senator Torgerson's bill is the test in which you have to show, by clear and convincing evidence, that without whatever benefit is being sought, the project would not be economic. I think that's a very vague test. I think it may be even an insurmountable test. But ... I can predict that it'll be a test that will discourage the producers from wanting to take that on and seek the benefits.

I think the scheme that Representative Ogan and others spent a long time working out in the Stranded Gas Development Act provides for a ... good test, and that is whether whatever is being proposed is in the long-term fiscal interests of the state. And the Stranded Gas Development Act sets forth all sorts of different factors that need to be balanced and considered. And I think that scheme ... is a good scheme, and one that's ready to go, and I think ... that the parties will want to ... use that scheme. And I'm not sure that they're going to want to use that scheme when facing the ... test of clear and convincing evidence that it's otherwise uneconomic, because I'm not sure they'll understand how they can meet that test.

Number 2825

RHONDA BOYLES, Mayor, Fairbanks North Star Borough, testified via teleconference, noting that she also is a businessperson. She thanked the committee for its hard work over the last 12 to 14 months. She told members although HB 519 isn't perfect, it is "one leg of a three-leg stool" requiring federal, state, and municipal support. She said it certainly asks for clarity and certainty, which as a businessperson she believes are critical. It also asks for economic incentives through a waiver of municipal property taxes for a limited period of time. "That certainly is not unreasonable," she said. "In fact, I believe - as leaders in our state and leaders in the boroughs, municipalities - we have an obligation to provide an environment that is conducive to economic development, and that would mean economic incentives."

MS. BOYLES emphasized how critical this project is to Interior Alaska, and stressed the need for gas and its long-term benefits. Without a gas line, there wouldn't be those long-term property taxes being collected. She suggested discussion regarding recouping property taxes during the operation phase is appropriate. She also referred members to Article 6 under AS 43.82 and said discussion regarding socioeconomic-impact aid is appropriate as well.

[Not on tape because of the tape change, but written in the committee secretary's log notes, was Ms. Boyle's remark that most important, she believes municipalities deserve a seat at the table regarding long-term tax structuring of this project.]

TAPE 02-23, SIDE B
Number 2980

MS. BOYLES concluded as follows:

I can tell you, pitting the municipalities and the state and the producers, in ... determining assessed values of the TAPS [Trans-Alaska Pipeline System] asset, is an inappropriate mechanism to deal with. The municipalities need ... a seat at the table now. And although you do a wonderful job representing us, I don't think it needs to be said that there's a trust factor ... between municipalities and the state legislature, and I think an even more obvious lack-of-trust factor between the legislature and the producers. And in a business partnership, lack of trust doesn't make for a good project.

So, I think we need to set our political agendas aside. We need to facilitate this gas project. We need to bring natural gas to the state of Alaska. And I would ask you to continue to lead our state and its citizens into the next decade with some fiscal certainty, additional jobs, and the benefits that this huge project would bring to us.

Number 2878

REPRESENTATIVE KOHRING thanked Ms. Boyles and said he agreed with her. He suggested this is the kind of legislation needed to spur development in the industry, and said it fits in with his own budget proposal for major cuts over a ten-year period in government bureaucracy, coupled with major expansion in the oil

and gas industry. He suggested this bill would go a long way towards helping the state's fiscal situation, "not to mention growth in our economy from jobs and just dollars flowing in the economy through construction of this nature."

Number 2819

BILL ALLEN, Chairman and Chief Executive Office (CEO), VECO Corporation, came forward to testify in support of HB 519. On his behalf, Rick Smith, Vice President of VECO Corporation, read the following:

Mr. Chairman and members of the committee, it is a pleasure to be here with you today, and I appreciate the opportunity to speak with you on an issue of the utmost importance to Alaska.

I know most of you personally. Over the years, we have had the chance to work together on many issues important to Alaskans: creating jobs and local hire, improving education, encouraging business and economic development, to name just a few.

I'm here today to tell you that in my opinion, no single issue is more important to Alaska's future than the legislation you now have before you. Alaska is truly at a crossroads. Many of our traditional industries are struggling - often through no fault of their own. Our oil resources are declining, our timber, mining, and fishing industries are on the ropes - because of factors largely beyond their control.

But the bottom line is that as those traditional, mainstay Alaskan industries struggle, Alaska struggles, and Alaskans find themselves out of work and unable to provide for their families. In addition, as our state's economy shrinks, so does your ability to ensure better schools, better communities, and a better quality of life for all Alaskans.

Mr. Chairman, I believe the legislation before you offers an opportunity for Alaska to control its own destiny. We know that the North Slope has enough proven reserves of natural gas to fill a pipeline to capacity for the next 50 years - 35 trillion cubic feet, and that's just the known reserves. Estimates

suggest there may be much more, perhaps enough to keep the pipeline - and the jobs and revenues it will create - operating for the next 100 years.

Number 2623

Unfortunately, before Alaska can realize any of those benefits, a pipeline must be built. A few years ago, like most Alaskans, I was enthusiastic about the prospects for the gas line. With prices soaring, it looked as if the pipeline was just around the corner. Well, we know what happened next. Just as quickly, prices dropped, and the economics suddenly changed.

After months of study, it's now clear that without some economic incentives, private industry is not going to be willing to risk the billions of dollars necessary to construct the gas line at this time. The project simply does not "math out" at current and foreseeable prices, unless some of the construction and startup risks are offset.

We know that we have some of the largest known gas reserves in the world. We know that we have reliable, private-sector partners who can help Alaska develop and market our vast, untapped resource. But we also know that Alaska is not the only place in the world where natural gas exists. And as with other industries, international competition increases every year.

Number 2562

I guess more than anything, I am here today to urge you to act quickly to seize a unique opportunity that can help ensure Alaska's future. I believe the window of opportunity is still open, if we act now to help make this project a reality. I also strongly suspect that if that window shuts, it may never open again.

In the past several weeks, I have talked with senior officials from the production companies. They have indicated a willingness to proceed, providing federal and state legislation is passed to help offset some of the project's tremendous risk. They also seek reasonable assurances of stability in our tax and economic climate.

In that regard, for the past several months members of our congressional delegation have worked to enact federal incentives to help make the gas line a reality. But ... as with any Alaska resource development issue, they are fighting a difficult, uphill fight, and they need our help.

Number 2504

Last week, [U.S.] Senator Murkowski called me and said that opponents of the gas line are now pointing out the absence of state action on the issue - and using that point to try to defeat our delegation's efforts in D.C. "If Alaska does not care enough to offer incentives," they say, "why should we?"

Senator Murkowski and the rest of our delegation have indicated that passage of HB 519 will go a long way toward demonstrating Alaska's commitment to this project. It will send a clear signal to Washington and the producing companies that Alaska is ready to step up to the plate to help build Alaska's future.

Number 2465

I have been asked what this legislation will cost Alaska. My answer has been very simple - absolutely nothing, because without this legislation, the gas line will never likely be built. You can't tax something that doesn't exist. So, any taxes potentially deferred by this legislation would never have been realized anyway.

On the other hand, I believe the true cost to Alaska lies in doing nothing. If this legislation does not pass and the gas line is not built, what will that cost Alaska? The gas line will create thousands of new jobs and billions in new revenue and economic activity. It can help provide a stable economic climate for Alaska at least well into this century - and long after you and I are gone. At a time when Alaska is desperately seeking new economic opportunities, I suggest to you that the best opportunity is very close at hand, if we will simply reach out and grasp it.

Number 2394

REPRESENTATIVE OGAN concurred with Mr. Allen's testimony, saying he would like to see the legislation move along as well. He then asked whether VECO Corporation would object if the bill were amended to add a way for the state to possibly recoup the foregone revenue later on, if prices are up and profits are being made.

MR. ALLEN referred to HB 393 [which became the Alaska Stranded Gas Development Act in 1998]. He said from what he could see from that Act, that could be negotiated. He suggested that would begin fairly quickly once there is federal legislation. Speaking of the producers, he said, "I don't know why they wouldn't do that."

REPRESENTATIVE OGAN pointed out that there is a difference of opinion between the DOR's reading of the bill and how it is being portrayed by the producers. He said he'd like to sort that out. He asked whether Jack Chenoweth, the drafter of the legislation, was available.

VICE CHAIR FATE indicated the committee aide would contact Mr. Chenoweth.

Number 2176

REPRESENTATIVE KOHRING thanked VECO Corporation for its efforts with this legislation and contributions to the economy in terms of jobs, local hire, and so forth. He suggested perhaps the bill could be moved from the current committee, with the House Resources Standing Committee then being asked to look at Representative Ogan's concerns.

Number 2124

PAMELA LaBOLLE, President, Alaska State Chamber of Commerce, came forward in support of HB 519. She offered the following testimony:

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. ... As the voice of Alaska business and the leading advocate for business headquartered here in Juneau, we've always appreciated the opportunity to address

bills of importance to the economic development of the state.

Our legislative priorities are developed at the grassroots level by our membership, through a several-month-long process of proposal, review, and debate. And among our top priorities - one of our five highest priorities - is urging the legislature and the governor to encourage the producers to proceed with development of a southern gas-line route through Alaska.

The chamber speaks in favor of HB 519 and urges its passage. Alaska absolutely needs a gas pipeline. For our members to have their businesses thrive or even just remain viable, Alaska's resources must be developed. It sometimes seems that people outside our state have a much greater say in what happens in our state than we do. With the defeat of ANWR [the opening to development of the Arctic National Wildlife Refuge] in Congress just yesterday, there are no other large developments on the horizon that will spur the growth of our economy in the near term.

Our executive committee meets monthly around the state, often in smaller communities; we were just in Petersburg yesterday. And as a result, we are very concerned with what we're seeing happening in the state's economy - little or nothing. ... We would like to know what the state plans to do to encourage economic growth, to try to have a hand in our own destiny.

While the final results of the producers' study haven't been released yet, it should be apparent to everyone that this is a project of enormous cost and risk. The state and local governments would benefit greatly, for years to come, if we can encourage the producers to take the risks inherent in this huge project and develop the North Slope gas resources by building a project through Alaska.

Number 1975

MS. LaBOLLE continued:

The temporary tax exemption provided by this bill should be looked upon as an investment by the state and the municipalities, to encourage the producers to go forward with a project that will create jobs, benefit municipalities, [and] spur economic opportunity for businesses that will start a whole new industry - a gas industry for Alaska.

By revitalizing the Alaska Stranded Gas Development Act and having it apply to this project, the state and producers can create a contract that will assure tax clarity and certainty, and protect vital interests of the state and affected municipalities.

How often does the state have an opportunity to take such a bold step to encourage large-scale economic growth? Several states and cities around our nation have offered to businesses tax incentives to ... encourage them to invest. This state should be less concerned with perhaps giving away too much, and more concerned with not missing a significant opportunity for economic growth, perhaps the only one in the next few decades.

VICE CHAIR FATE thanked Ms. LaBolle and informed members that Mr. Chenoweth was online to answer questions.

Number 1891

REPRESENTATIVE OGAN noted DOR's position that [the bill] doesn't allow recoupment of foregone revenue and is basically a tax waiver; however, other testifiers suggest there is an ability under the Alaska Stranded Gas Development Act [if renewed] to negotiate and possibly recover some of that. He asked Mr. Chenoweth, drafter of the bill, for his opinion.

Number 1837

JACK CHENOWETH, Assistant Revisor, Legislative Legal Counsel, Legislative Legal and Research Services, Legislative Affairs Agency, responded via teleconference:

I think there's probably some truth to ... both positions. The bill as offered ... does put off-limits the property and other associated efforts in conjunction with the gas line ... for the period of gearing up and during the first period of

construction, for a period, as I recall, of up to two years - and we're talking about the property-tax levy that can be reached under [AS 43.56].

But the bill also loops in the stranded gas Act, in its last two sections. And as you may recall, from the effort with the stranded gas Act several years ago, other provisions in that Act - if ... the Act is brought into play - do provide for some sort of a contractual arrangement which ... might provide for a recoupment, after the fact, of taxes that are not paid ... early in the life of the project.

Number 1776

REPRESENTATIVE OGAN asked whether, then, enough of the Alaska Stranded Gas Development Act is incorporated into HB 519, as written, so that there possibly could be recoupment if gas prices were high, for example.

MR. CHENOWETH answered that the amendment in Section 9 of HB 519 broadens the purposes for which the stranded gas Act can be brought into play, and the amendment to Section 10 extends the period in which applications may be made to take advantage of that Act. He pointed out that the contract-development provisions of AS 43.82.200, and the sections that follow, talk about the use of periodic payments and similar kinds of arrangements to cover taxes generally identified as being associated with oil and gas production, transportation, and so forth.

Number 1673

REPRESENTATIVE JOULE referred to Section 4, new paragraph (7), page 6, lines 25-26, which reads in part, "for purposes of this paragraph, 'Alaska North Slope natural gas project' has the meaning given in AS 38.35.240." He noted that the reference is to the definition [in Section 3(b)], and includes "related facilities". He asked what that means and what the potential implications are.

MR. CHENOWETH noted that the cross-reference to "Alaska North Slope natural gas project", on page 6 [line 6] of Version L, is to AS 38.35.120(a)(1)(B). He said that definition talks in terms of all the facilities of a total system of pipe intended to transport, deliver, store, or provide for further or onward transportation of natural gas. Mr. Chenoweth said:

This language was taken from another bill, the idea being, I think, in fairness, that what ... they are trying to cover or bring under the umbrella is all of the facilities that ... might be involved in a potential natural gas pipeline project: gathering lines; gas fabrication plants and things of that sort; and then down at the other end, if ... you're talking about LNG, the facilities at ... at tidewater or whatever it might happen to be. ...

Because we are tying ... the definition of taxable property to this definition, we are providing a broadened definition for the project as it relates to ... particularly the property tax that may be imposed under [AS] 43.56 by the state, and under the other provisions that allow a local government to come in ... and levy the tax.

At one point, there was some discussion about whether gathering lines and things on the fields ahead of the point of entry into a gas pipeline should or should not be covered ... by this provision. I think the way it's drafted, in the absence of any kind of a specific exception, it would be given a broad reading and those sorts of facilities would be covered under this definition and, therefore, made subject to the pipeline property tax, rather than the exclusive tax of ... a particular local unit of government.

VICE CHAIR FATE thanked Mr. Chenoweth and called on Mr. Konrad.

Number 1435

KEN KONRAD, Senior Vice President, BP Exploration (Alaska) Inc., came forward to testify, noting that he is Vice President of Gas for his company. He offered the following testimony:

I am here this morning to testify in support of House Bill 519. Creating a supportive government framework is an essential ingredient towards developing a successful ANS [Alaska North Slope] gas project. An international project of this magnitude brings many inherent risks. Governments, working constructively with industry, can play a major role in reducing these risks by setting clear and predictable rules under which a project would be undertaken.

BP, with our partners, has previously laid out key government actions that would facilitate future investment on this massive undertaking: a clear and efficient U.S. federal regulatory process - progress is being made with Alaska gas provisions currently part of this pending U.S. Senate energy bill; an efficient and predictable Canadian/First Nations regulatory process - BP continues to be very active working in Canada to establish such a process, and progress is indeed being made; and, finally, [a] simple, clear, and predictable fiscal framework in Alaska such that the massive, long-payout investments being contemplated can be undertaken with the knowledge that the rules won't change.

House Bill 519 would be a positive step towards achieving the necessary fiscal framework in Alaska. The bill is modeled after House Bill 393, which was passed in 1998. As we did in 1998, BP continues to support the content and approach inherent in the stranded gas Act, which this legislation refreshes, updates, and makes available for a gas pipeline project.

Number 1328

MR. KONRAD continued:

House Bill 519 and the stranded gas Act, in combination, would first demonstrate leadership and intent by the legislature to provide stable fiscal terms that encourage development of ANS gas while fully and fairly compensating the people of the state. Second, it would establish a protocol, beginning with an application and followed by a process to exchange information between investors and the state. It would empower the state to enter into a contract negotiation to achieve clear and simple tax and royalty terms; these terms would need to be subsequently approved by both the executive branch and the legislature.

It provides a process with the state and investors while providing for municipal input. It provides for contract review, approval, [and] termination provisions, inclusive of municipal input; legislative authorization; and judicial review. It also provides

for ... prioritization of state agency support for a qualifying project. In aggregate, it sets out a thoughtful ... and a workable framework through which important fiscal issues [are] subject to subsequent approval by ... this legislature.

The bill also encourages Alaska hire, training, and purchasing. BP has and continues to support the use of in-state capability. However, some technical modifications may be considered to ensure the bill's language does not draw legal challenge.

Passage of HB 519 would send a positive message to investors and provide a framework to achieve fiscal clarity, simplicity, and predictability. BP is fully supportive.

Number 1240

REPRESENTATIVE OGAN asked Mr. Konrad, "Are you going to build a gas pipeline."

MR. KONRAD answered, "I hope so. We're busting a gut to try and make it happen, and I think we're probably as close as we've ever been in the last 30 years - or, indeed, closer."

Number 1199

REPRESENTATIVE OGAN offered his understanding that two of the three producers are agreeable to providing economic models, but that one isn't. He asked, "Are you one of the producers that's agreeable to providing it?"

MR. KONRAD said his company is happy to work with the state, but the essence of this bill is to set out a framework for predictability and stability. He explained:

Economic models may be part of that, but I think the bigger piece of predictability and stability is knowing what the rules are. Models assume what the rules are, but, of course, the rules are much more fluid than whatever you put in a model. ... But BP has ... shared information with the state on other activity, including ... the activity we had around Northstar, so I think that's a bridge we've already crossed.

Number 1084

REPRESENTATIVE OGAN asked whether, in the working group, BP was agreeable to letting the results of that working group and the economic models that were produced be known before the legislature.

MR. KONRAD answered:

We're planning to roll out information on the project here very, very shortly - or the update on the project - and if there's further information that needs to be provided, then we're happy to provide it, as long as it's ... not proprietary. ... Economic models in themselves are not proprietary, and I don't think there's a fundamental issue around that.

REPRESENTATIVE OGAN asked whether there is an agreement in the working group that all three must agree [if the producers are] to provide the economic models.

MR. KONRAD replied that some people have been struggling with the issue of confidentiality. "As I said, BP has done that before on other projects," he added, "and I don't foresee that being a problem on this project."

REPRESENTATIVE OGAN asked whether BP, then, isn't one of the producers that would object to releasing information discovered in the working group.

MR. KONRAD answered, "I'm not actually sure what you're talking about. ... I haven't heard people saying that there's one company for this ... or not. We've historically shared information with the state, and we don't have a problem with ... sharing it in the future."

Number 0954

REPRESENTATIVE OGAN expressed frustration about not receiving information, including economic models, requested in January. "I'm supportive of this legislation because I think it's the right thing for Alaska and it'll help," he remarked. "But ... it would give me ... a lot less heartburn to vote 'yes' on this if the producers and the working group [were] more forthcoming with the information that we requested and haven't gotten."

MR. KONRAD responded:

The reason this project isn't economic yet is because the risks outweigh the rewards, and we've tried to identify, as clearly as we can, ... three of the key risks, which is regulatory risk in the U.S., regulatory risk in Canada, and fiscal risk in the state of Alaska. And those are the ... key elements around reducing the risk of the project. Clearly, we have a job to do, to reduce costs and reduce risks around costs and manage the costs, but ... that's kind of our job, and that will take an enormous future investment and ... engineering to do that.

What we want is a framework in place. ... We've spent \$125 million. We go to the next phase, it's going to be quite a bit larger ... than the first phase. And just knowing that there's a predictable framework out there, ... that the rules aren't going to change, that ... really has been the essence of our requests around fiscal stability in the state of Alaska.

Number 0820

REPRESENTATIVE OGAN concurred, but said legislators would like more information in order to be able to explain to constituents why the legislature is providing these incentives.

MR. KONRAD said:

It would fully be BP's intent to enter into negotiations with the state around fiscal stability ... as quickly as possible. So, it's fully our intent to do that, and those negotiations could go ... wherever they went. But, at the end of the day, there would ... need to be a mutual agreement.

I think the second thing ... to observe is that to the extent there were a property tax holiday, that ... would lower the tariffs ... on the line for the life of the line, because ... those taxes would not become ... part of the capital costs ... of the line. Hence, with lower tariffs over the life of the project, royalty receipts would be higher over the life of the project, and ... severance tax receipts would be higher over the life of the project. So there is an inherent, natural recoupment....

REPRESENTATIVE OGAN and VICE CHAIR FATE thanked Mr. Konrad.

Number 0699

VICE CHAIR FATE called an at ease at 9:40 a.m. He called the meeting back to order at 9:44 a.m.

Number 0635

JOE MARUSHACK, Vice President, ANS Gas Commercialization, Phillips Alaska, Inc., came before the committee to testify in support of HB 519, noting that his primary responsibility is the development of Phillips' ANS gas resources and that Phillips is committed to achieving its goal in a timely and economic fashion. He read from his written testimony, with a few changes, as follows:

As you know, we have been focusing this year on those areas that we believe are most likely to result in an economically viable gas pipeline project to the Lower 48. We have completed our joint analysis of the work the producers initiated last year, [and will be] setting up a time to review the results with you. Phillips is ready to start discussing these items, and we're waiting on partner approvals.

[For] several months, however, most of Phillips' gas emphasis has been directed at the federal level to achieve the congressional legislative changes to advance our project. [These] include federal legislation that creates permitting certainty - and I believe you are well aware of the current federal legislation that's in the [U.S.] Senate bill.

The second - and perhaps the most important - thing that will help us achieve a project is a federal tax mechanism to help mitigate the unacceptable market risk of a project of this magnitude. I understand you are probably aware of current drafts of this mechanism that provide downside mitigation, but also provides repayment of any credit, if used, and that is currently assessed by the U.S. government as having zero cost. This piece of legislation is, in Phillips' view, a most critical element in moving the project forward. It shares the benefits that the Lower 48 consumers will see from ANS gas coming to the market,

while addressing the risk inherent in such a large and costly project.

Phillips is also pursuing additional federal ... issues such as accelerated depreciation and perhaps an investment tax credit on part of the assets.

Number 0438

MR. MARUSHACK continued:

Given achievement of the federal legislation - and at this point, it is not a certainty - it is important to the economic viability of the project to progress fiscal matters at the state level.

Fiscal matters include fiscal certainty. And what we really mean is, we need to know - with a fair degree of specificity - how our taxes and royalties will be calculated and administered. We would also like to address potential opportunities to gain assurances that those taxes and royalties won't change once we've made our investment. We believe that strategic participation by the state in mechanisms to improve the economic viability of the project are important.

While there may be a need for minor clarifying language, we are encouraged by the committee's consideration of HB 519 that proposes both a temporary property tax abatement and the revival of an existing statutory process by which pipeline project sponsors can work with the state to gain the kind of fiscal certainty and clarity that will reduce risks and help the project move forward. [The temporary] property tax abatement is an important signal to the U.S. Congress that Alaska has stepped up to try to make a project happen.

By itself, an ad valorem holiday is not [of] sufficient size that it can singularly make a challenged project economic. However, it is an important step in a series that along with other actions at the state/federal level, [and] actions from the producers, including potential technological improvements, we believe can reduce the risk and improve the project economics.

Number 0297

REPRESENTATIVE OGAN asked, "Are we going to build a pipeline?"

MR. MARUSHACK replied that he doesn't believe anybody will know to a certainty whether a pipeline will be built for several years. He added:

However, what I can tell you is this: If we achieve the federal legislation that we need, the enabling legislation, the tax mitigation, and the tax mechanisms we need, and we can achieve the state fiscal certainty that we need, Phillips is committed to moving forward with the process, to initiate the permitting process and try to make this project happen. So what I'm telling you is, if these things can happen, we are committed to ... finding partners and investing several times more than the \$125 million we've already invested in this project to make it happen.

The reason that you may think I'm hedging on you on this is ... it'll take a long time to work through all the permits, all the procurement, all the design factors [to] make sure we have a project. ... Just like every other project I've ever worked on - we will not know for absolute certainty that we're going to build the project until the steel is landed and we're welding it.

Number 0177

REPRESENTATIVE OGAN again mentioned the economic models from the working group, as well as his understanding that it will require all three producers' signing off on releasing the information, but that one producer will not. He asked whether Phillips is one of the working group members that wouldn't sign off on it.

MR. MARUSHACK answered:

[Phillips Alaska, Inc.] is committed to working and providing information to the legislature and the administration on what we've accomplished through this \$125-million process. We're in the ... process of putting that information together. As I said, I think it's in a pretty good [position] to go forward. ...

All of us have internal approvals that need to be ... secured, and those are happening right now. I ... do understand your frustration in not seeing the data sooner. And let me say that ... in our view, it has not been anything that has been a result of not wanting to get the information or anything sinister like that.

I can tell you that my view is, the federal issues are the most important things to move the project forward, in that if those don't happen, I don't know how we move a project forward. So we have been focusing a tremendous amount of hours and effort on trying to work those federal issues. I apologize that that has resulted in us not getting you the information [in] a more timely fashion, but I am committed to getting you that information, also....

TAPE 02-24, SIDE A
Number 0001

REPRESENTATIVE OGAN thanked Mr. Marushack and told him he appreciated the answer, although it would give him more comfort on passing legislation to see some numbers and justification. He said he was willing to let the legislation move forward, however, because he believes it in the state's best interest. Without a pipeline, it is a rhetorical question about how much tax will be collected from it, he added.

Number 0092

REPRESENTATIVE DYSON moved to report from committee CSHB 519 [version 22-LS1651\L, Chenoweth, 4/18/02] with individual recommendations and the accompanying fiscal note.

REPRESENTATIVE OGAN informed members that although he'd had some concerns about the ability to have "payback on the upside," that concern had been addressed fairly well by Mr. Chenoweth.

Number 0162

VICE CHAIR FATE remarked, "We've discussed this with the sponsor, and we'll still be looking at ... omitting Section 2 from this particular bill." He said it would be discussed with [Representative Kott] as the bill moves forward to the House Resources Standing Committee.

Number 0173

VICE CHAIR FATE asked whether there was any objection to the motion. There being no objection, CSHB 519(O&G) was moved out of the House Special Committee on Oil and Gas.

ADJOURNMENT

Number 0196

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at 9:55 a.m.