

MINUTES
SENATE FINANCE COMMITTEE
February 15, 2001
9:02 AM

TAPES

SFC-01 # 16, SIDE A
SFC-01 # 16, SIDE B
SFC-01 # 17, SIDE A

CALL TO ORDER

Co-Chair Dave Donley convened the meeting at approximately 9:02 AM.

PRESENT

Senator Dave Donley, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Jerry Ward, Vice Chair
Senator Loren Leman
Senator Alan Austerman
Senator Lyman Hoffman
Senator Donald Olson
Senator Lyda Green

Also Attending: SENATOR RICK HALFORD; MARY GORE, Juneau Area Director, Special Olympics; JOHN MAGALOTTI, Special Olympic Athlete; JUSTIN ROBERTS, Special Olympic Athlete; NIALL JOHNSON, Special Olympic Athlete; ANNALEE MCCONNELL, Director, Office of Management and Budget; WILLIAM G. BRITT, JR., State Pipeline Coordinator, Office of the Commissioner, Department of Natural Resources; KURT FREDRIKSSON, Deputy Commissioner, Department of Environmental Conservation; KEN TAYLOR, Director, Division of Habitat and Restoration, Department of Fish and Game; PATRICK GALVIN, Director, Division of Governmental Coordination; REYMOND HENDERSON, Director, Department of Administration, Department of Labor and Workforce Development; KURT PARKAN, Deputy Commissioner, Department of Transportation and Public Facilities; KEN FREEMAN, Special Assistant, Business and Gas Line Development, Office of the Governor; JANICE LEVY, Supervising Attorney, Oil, Gas and Mining Section, Civil Division, Department of Law; LARRY PERSILY, Deputy Commissioner, Department of Revenue

Attending via Teleconference: From Anchorage: KELLY NICOLELLO, Assistant Fire Marshal, Division of Fire Prevention, Department of

Public Safety; RICHARD MCMAHON, Chief, Lands Records Information, Division of Support Services, Department of Natural Resources; MARK MEYERS, Director, Division of Oil and Gas, Department of Natural Resources

SUMMARY INFORMATION

SB 19-CHILD SUPPORT ENFORCEMENT/SOC SEC. #

The bill moved from Committee.

SB 80-APPROP: SPECIAL OLYMPICS

The Committee heard from the sponsor, a representative of the Special Olympics, and athletes. An amendment was adopted and the bill moved from Committee.

SB 73-SUPPLEMENTAL APPROPRIATIONS/AMEND APPROP.

SB 74-FAST TRACK SUPPLEMENTAL APPROPRIATIONS

The Committee heard from the departments involved in the natural gas pipeline efforts. The bill was held in Committee.

#sb19

CS FOR SENATE BILL NO. 19(HES)

"An Act relating to federal child support enforcement requirements regarding social security number information, employer reports about employees, and certain kinds of automated data matching with financial institutions; repealing the termination date of changes made by ch. 87, SLA 1997, and ch. 132, SLA 1998, regarding child support enforcement and related programs; repealing the nonseverability provision of ch. 132, SLA 1998; repealing uncodified laws relating to ch. 87, SLA 1997, and ch. 132, SLA 1998; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

[TAPE MALFUNCTION]

It was noted that there was no further discussion on the legislation.

Senator Leman offered a motion to report from Committee, CS SB 19 (HES), with a new zero fiscal note, dated February 13, 2001, from

the Department of Revenue.

There was no objection and the bill MOVED from Committee.

#sb80

SENATE BILL NO. 80

"An Act making a special appropriation to the Department of Military and Veterans' Affairs for a grant to 2001 Special Olympics World Winter Games; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

BILL STOLTZ, staff to the bill's sponsor, Senator Rick Halford, testified that the \$500,000 allocated to the Department of Military and Veterans Affairs is to help cover the costs of food and housing for the approaching 2001 Special Olympics World Winter Games.

Co-Chair Donley referred to the proposed Amendment #1 and asked if the bill's sponsor supported it.

Mr. Stoltz responded that the amendment is consistent with the intent of the legislation to fund food and housing expenses with the expectation that any remaining funds would be returned to the agency.

MARY GORE, Juneau Area Director, Special Olympics in Juneau, emphasized the need for food to feed the hungry athletes. She introduced three athletes pointing out the medals each wore and explaining that the victories qualified them to participate in the world games.

JOHN MAGALOTTI, Special Olympic snowboarder, spoke of his love for the sport and the opportunity to meet athletes from 80 countries.

JUSTIN ROBERTS, Special Olympic alpine skier expressed that he has been skiing his whole life, the past seven with the Special Olympics. He stated that he trains and tries to do his best in the competitions.

NIALL JOHNSON, Special Olympic snowboarder, told the Committee about the Air Force Band dances held during the games, noting that at the last event, he danced with Miss Teen Juneau.

The Committee members and others present applauded the athletes.

Amendment #1: This amendment replaces "operating costs" with "costs related to housing and food expenses". It also adds a new bill section to read, "Any portion of this appropriation not expended lapses June 30, 2001."

Senator Lemman moved for adoption. Without objection it was ADOPTED.

Senator Ward noted the great amount of volunteer efforts and the exposure the games would bring to Alaska. He stated, "this is one example of public funds ... [where] we're going to have a roll-over effect and good will for years and years to come not only in the lives of the participants but all those who got to enter in and help along with this."

SENATOR RICK HALFORD arrived and stated that the bill and the accompanying sponsor statement were self-explanatory. [Copy on file.] He added that the amendment is consistent with his intent that any unused funds would lapse.

Co-Chair Donley shared his discussion with US Senator Ted Stevens, Honorary Chair, 2001 Special Olympics World Winter Games, and was assured there would be an effort to lapse any unnecessary funds.

Senator Lemman concurred with Senator Ward's statement. Senator Lemman stated that he carefully scrutinizes supplement budget requests, but that this request, "is one that I believe rises to the top." He continued, "These three young men well-represent what this is about." He stated that he was proud to be a supporter of the legislation.

Co-Chair Donley reminded the Committee of the legislative commitment made to support the world games, which helped secure Anchorage as the chosen site.

Senator Lemman offered a motion to move SB 80 22-LS0550\A, as amended, from Committee.

The motion carried without objection and the bill MOVED from Committee.

#sb73
#sb74

SENATE BILL NO. 73

"An Act making supplemental appropriations and making and amending other appropriations; and providing for an effective date."

SENATE BILL NO. 74

"An Act making supplemental and other appropriations; and providing for an effective date."

This was the second hearing for these bills in the Senate Finance Committee.

Section 8

Multiple Departments

Gasline-Capital Budget Review Unit (BRU)

Gas pipeline development-related activities to expedite field season research and other pre-application state responsibilities.

\$1,960,100 general funds

ANNALEE MCCONNELL, Director, Office of Management and Budget, Office of the Governor, shared that since the fall of 2000, the governor has had state agencies working as a team to advance development of North Slope natural gas. She spoke to the intensive effort and the importance that the state support the private sector's heavy workload rather than impede those efforts. She said it had become apparent that the magnitude of the work ahead is more than initially predicted. She noted that the governor has requested funding for FY 02 to address these issues, but that additional work must be done before the start of that fiscal year.

Ms. McConnell explained the reasons for submitting the request as a capital project rather than as an operating expense. She said that by listing the project as a single budget item, it would be possible to view the process as an inter-related package between the agencies involved. She also stressed that as a capital project, it would be clear that the efforts are project-specific instead of the on-going state agency operations. She added that any positions added would be funded only through the duration of the project rather than permanent positions, which would be clearer with the capital project designation.

WILLIAM G. BRITT, JR., State Pipeline Coordinator, Office of the Commissioner, Department of Natural Resources testified that the supplemental budget request would help advance development of Alaskan's natural gas consistent with the following principles.

- Alaskans working on the project
- Alaskan businesses providing services and materials for the project

- Alaskan consumers with access to the gas
- New and existing Alaskan industrial users with access to the gas
- Alaskans receiving a fair return for the state-owned resources

Mr. Britt asserted that the time is right for large-scale development of Alaskan natural gas and that North America is the market to receive the gas. He added that the North American route is the way to move the gas from the source to the market. He stressed that the gas pipeline must "be built now because demand is up, supplies are not keeping up, storage docks are down and the price of gas is up as a result."

Co-Chair Donley interrupted to stress that the Committee did not need to be convinced of the reasons for getting the gas to market, but rather needed to understand the necessity for the fast tracked money.

Mr. Britt resumed, saying the request would allow the state to advance the natural gas development project by:

- establishing a coordinated state permitting process
- beginning to gather data for processing the permits
- working with project proponents to advocate Alaskan interests
- working with project proponents to insure that their permit application are complete, which would allow the state to move more rapidly when the applications are received
- developing information on economic and fiscal issues for policy makers
- advocating Alaskan interests before the US Congress and with federal and Canadian agencies
- informing Alaskans of the issues involved in developing Alaskan natural gas and soliciting their views on those issues

Mr. Britt stated these efforts would make:

- the gas pipeline project more responsive to the state priorities
- state government smarter about critical issues surrounding a gas pipeline project
- better decisions related to those issues

- it possible to authorize the project more quickly when an application is received
- better permit and authorizations that the state issues
- the permits and authorizations that others issue more responsive to Alaskan priorities
- Alaska's financial return from the project greater

Senator Ward wanted to know the existing permitting problems that call for the streamline efforts.

Mr. Britt stated he would not characterize the current system as having problems. He described his duties as a coordinator and the discovery that when state agencies work together with a unified plan, resources and information could be shared and the process would move efficiently.

Ms. McConnell also noted that a coordinated effort would allow the statutory and regulatory process to proceed faster.

Ms. McConnell then addressed Co-Chair Donley's earlier question on the need for the funds before the start of the next fiscal year. She relayed that producers had already announced their expectation to spend \$75 million over the next nine months. She stressed the need for the state to be prepared to address applications when they are submitted. She added that the fiscal issues also need to be resolved and that the public needs to be educated on the matter. She stated that in order for field research and data gathering to begin the upcoming summer, preparation for that work must begin at once.

Senator Austerman commented on where the pipeline would run and what the benefits to Alaska would be. He was concerned that the producers are hesitant to discuss the matter before they have decided where they would like the pipeline. He stressed that he had not yet agreed to allow the producers to determine that location. He qualified that the pipeline must be built, but that he was uncomfortable with the governor's efforts.

Senator Wilken wanted to know how this supplemental request involves the University of Alaska. He relayed President Mark Hamilton's desire to be included in the planning of the pipeline. Senator Wilken stated that the university had assets it could "bring to the table."

Ms. McConnell stated that it was anticipated that the University of Alaska would be very involved in the job training aspects of the project, which would occur in FY 02.

AT EASE 9:25 AM / 9:27 AM

Department of Environmental Conservation

KURT FREDRIKSSON, Deputy Commissioner, Department of Environmental Conservation, testified that the department would play a major role in the gas line project. He listed air permits for the vessel station, water quality issues, domestic wastewater issues with the camp, solid waste and food safety, as examples of the many departmental programs that would be involved in the permitting and oversight of the project. He stated that the requested supplemental funds would be used to help identify where potential permitting problems could arise. He shared that there is confusion with what the state requires for environmental protection and the aspects of the project itself. He explained that the intent is for the future applicant and the department to prepare an appropriate application. He emphasized that submission of the actual application is expected in December 2001.

Mr. Fredriksson continued saying that the department's main focus is air, water and fuel issues. He pointed out that a portion of the requested funds would be used to hire an air chemist to work with the industry on ambient air quality monitoring and meteorological data that must be collected the summer of 2001. State statute and federal requirements, he informed the Committee, dictate the department to have one year of this data.

Senator Austerman asked if the \$140,000 allocated to this effort would be utilized during the next four months.

Mr. Fredriksson affirmed and stressed the producers were requesting discussions on this project to begin in the next month. He stressed the need to design the facilities to avoid potential environmental problems.

Co-Chair Donley asked if this supplemental request would apply only to the current year or if the department anticipated these expenditures would continue and whether the department would submit requests for additional funds.

Ms. McConnell replied that the proposed FY 02 budget contains such a request and that she could explain in further detail at members' request. She stressed that the supplemental request before the Committee at this time was smaller than the FY 02 request.

Co-Chair Donley asked if the FY 02 request would be contained in the capital budget.

Ms. McConnell affirmed. She spoke to additional information received since the December 2000 submittal, noting that the Administration would submit amendments to the original proposal.

Senator Leman requested backup information detailing the additional positions.

Mr. Fredriksson stated he would provide such information.

Senator Hoffman asked if the department was working with the Native corporations who own much of the land that the pipeline would traverse.

Mr. Fredriksson responded that while no such efforts had been made to date, the department included working with all landowners in its planning process.

Co-Chair Donley understood that the oil companies had not yet announced a timetable for the total project and that their working group would start April 1, 2001. He asked why the department needed the money at this time.

Mr. Fredriksson replied that the funds are necessary to "gear up" and to acquire and update the information gathered during previous gas pipeline discussions held between 1978 and 1982. While he was unsure of the April 1 timeframe, he knew that discussions regarding environmental issues had already begun. He advised that the industry has hired 50 new employees, with a goal of 90 employees to address this issue. He relayed that the department had a meeting scheduled for February 28, 2001 with the producers.

Mr. Britt interjected that the producers are only one of the project components. He stressed that the producers have already submitted requests for approximately \$75 million worth of proposals and have hired additional staff in anticipation for the projects. He stated, "We are obligated to advocate the state's interest in all of these different arenas."

Senator Green asked if any existing staff has the necessary qualifications listed in the proposal.

Mr. Fredriksson answered that there were such employees and that he would like to fill the new positions with these qualified staff members. He singled out an employee currently working in the Division of Oil Spill Prevention and Response who previously worked in the former gas line office. He emphasized the need for such expertise. He suggested that new staff would be hired to fill the

existing positions and the expertise would be directed to the natural gas project.

Senator Green wanted to know if the department had a prioritization mechanism in place to share these duties if the legislature did not fund this request.

Mr. Fredriksson affirmed the department does have a system and that the natural gas pipeline project would compete with existing projects, such as air monitoring and air permitting work.

Ms. McConnell added that other industries depend on the department for their projects. She warned that because many services are fee-based and not funded from the general fund, the amount of work that could be redirected to the pipeline project is limited. She added that there is great concern with the matter of recruitment and that many employees are being lost to the federal government and the private sector.

Senator Green asked for the total number of employees in the Department of Environmental Conservation.

Mr. Fredriksson replied there were approximately 425 positions in the department.

Senator Leman referred to HB 361, the "Fees Bill" from the 21st Alaska State Legislature and asked the state's obligation for cost recovery of this natural gas project under this law.

Mr. Fredriksson explained the implications of HB 361 that established a fee system, which holds the department accountable for its time and reimbursement. He noted that this law does not require 100 percent reimbursement and that the department would look to the state lease authorities for reimbursement.

Senator Leman urged the accounting to be detailed and accurate in order to justify what the state may wish to recover.

Ms. McConnell stated that a working group had already been formed to devise a tracking system to identify any recoverable costs.

Senator Hoffman asked about the term of employment of the additional staff requested.

Mr. Fredriksson referred to a projected timeframe up through 2002 when the issue would be reconsidered. He stressed the positions would not continue past the construction of the pipeline.

Department of Fish and Game, Division of Habitat and Restoration

KEN TAYLOR, Director, Division of Habitat and Restoration, Department of Fish and Game, testified that the division is responsible for ensuring that the fish and wildlife resources are not impacted, or that impacts are avoided during the construction of the gas pipeline. He stated that this could be done most successfully when the division is involved in the planning and design phases of construction. He explained that the supplemental request would fund a minimal approach to the issue, funding two positions in FY 01 to prepare for the upcoming summer field season. He stressed the need for receiving the funds in order to have staff in place by the start of the summer season, when gas line consultants would be in the field.

Mr. Taylor spoke to the three critical field seasons, the summer and winter of 2001 and the spring of 2002. He stated that the primary impacts to avoid are fisheries related and that the different field seasons are necessary to survey impacts during different times of the year.

Co-Chair Donley wondered how the division would be able to do field surveys without knowing for certain the route of the pipeline.

Mr. Taylor replied that the division would focus on the Alaska Highway route due to existing permit activity on that location.

Co-Chair Donley challenged that a recent poll shows 70 percent of Alaskans support a tidewater route. He then asked if, because most of the highway route follows the pipeline corridor, the data already exists.

Mr. Taylor responded that the existing data was collected between 1978 and 1982 and does not focus on the entire area. He stressed that changes have been made and more studies are necessary.

Senator Austerman questioned the \$60,000 allocation for two four-month positions. He calculated the annual salary would be \$120,000 per employee and asked if that were appropriate for the type of work performed.

Mr. Taylor affirmed, explaining that the positions would be upper level positions, one supervisor and one pipeline coordinator, who would supervise the field workers. He emphasized that during the Trans-Alaskan Pipeline construction in the 1970s the division had a field crew of 15. He stressed that the gas pipeline is a "big effort" and the funding level is appropriate for the positions.

Senator Leman asked if the division should rely on the project sponsors to gather necessary information rather than collecting the information itself.

Mr. Taylor agreed and stressed the effectiveness of working with industry in the field, identifying solutions together.

Senator Ward asked if the division planned on transferring existing employees into the positions.

Mr. Taylor responded that while there were qualified people already on staff, their workloads were full. He stated that he did not plan to transfer existing employees into the new positions but stressed that employees could apply during the open recruitment period and that they would be considered.

Senator Ward asked if the witness had identified what other projects would be impacted if the supplemental funding were not provided.

Mr. Taylor had not because 80 percent of the division's funding is already targeted to existing projects and could not be redirected.

Tape SFC-01 #16 Side B 9:50 AM

Senator Ward asked if this meant no other projects would "drop off" because of the natural gas pipeline.

Mr. Taylor did not know how the division could assume this workload with the existing staff level.

Ms. McConnell explained that project-specific federal and other fund sources could not be shifted to a different project.

Senator Ward understood that 20 percent of the division's funding was not project-specific.

Mr. Taylor responded that approximately 12 percent is general funds and that the legislature has directed the division to target those funds toward the statutory permitting responsibilities. Therefore, he stressed that without instructions from the legislature the division would continue to follow the directive.

Senator Austerman asked how many employees work for the division.

Mr. Taylor answered there are 90 employees.

Senator Austerman wanted to know how many were located in Anchorage.

Mr. Taylor estimated the number was between 40 and 43.

Senator Hoffman referred to the \$32,000 Department of Environmental Conservation travel budget, with which that department could conduct fieldwork. He wondered how much fieldwork the Division of Habitat and Restoration could perform with the only \$3,900 that it requested.

Mr. Taylor replied that most of the fieldwork would be conducted during the upcoming summer and that funds for that work were requested in the FY 02 budget. He stressed that the initial effort would focus on analyzing the earlier collected data contained in 35 file cabinets and to hire staff and plan fieldwork projects. He hoped to fill the two positions in April, with fieldwork beginning in early June.

Office of the Governor, Division of Governmental Coordination

PATRICK GALVIN, Director, Division of Governmental Coordination, out-laid the division's primary responsibility for implementing the Alaska Coastal Management Program (ACMP). He explained the statutory obligation to make a consistency determination for projects that require a state or federal permit. He noted that for this project, the division would perform a consistency determination for the gas pipeline. He stated that the request is to hire a project review coordinator who would engage in pre-application assistance for this fiscal year, and perform the actual consistency review when the project is submitted in December 2001.

Mr. Galvin explained the process of coordinating all permit issuers to make the determination of whether the project would be consistent with federal and state requirements and also how the permits would be implemented.

Co-Chair Donley asked which portion of the pipeline would be subject to the ACMP requirements.

Mr. Galvin responded the highway route would be subject to ACMP requirements at the origination point on the North Slope.

Department of Labor and Workforce Development

REYMOND HENDERSON, Director, Department of Administration, Department of Labor and Workforce Development, detailed the

department's role in assessing the occupational supply and demand to determine what job classes would be required to construct and to operate the gas pipeline. He stated that a new labor economist position would supervise existing staff, and that the remainder of the costs would cover associated travel and contractual needs.

Senator Green asked how a three-month delay in this funding would affect the department's efforts.

Mr. Henderson replied that the Occupational Employment Survey (OES) begins in October of each year and that the department needs to begin right away to modify the survey. He warned that if the process did not begin immediately, the entire survey project would be delayed 12 months.

Ms. McConnell added that Department of Labor and Workforce Development has been identified as a significant aspect of the overall gas pipeline project. She asserted that the goal of the legislature, the Administration and the private sector is to fill as many jobs as possible with Alaskans. With accurate data up front, she stated that the Administration would be in a better position to work with the university and others to provide job training and to match Alaskans with employers.

Senator Green asked if industry already knew their needs. She questioned the need for special research.

Mr. Henderson responded that while the industry may have an idea of their needs, the department needed to begin discussions with experts to "find out exactly what it is going to take."

Department of Public Safety, Division of Fire Prevention

[Note: Audio malfunction with teleconference sound quality.]

KELLY NICOLELLO, Assistant State Fire Marshal, Division of Fire Prevention, Department of Public Safety testified via teleconference from Anchorage that the legislature's approval of the supplemental request would allow the division to prepare engineering and training regarding the practices and development criteria of natural gas pipeline production. He continued that this would allow the division to respond to the applicant's request for building and construction permits, stressing the importance of understanding, ascertaining and avoiding the hazards involved in advancing technology. He pointed out that while the division has experience with other oil production facilities, their experience with natural gas is limited. He anticipated that this training would help eliminate delays with project approvals.

Mr. Nicoletto advised that if this request is not approved, the division would not alter the level of service currently offered, but would be disadvantaged in pre-construction design and planning.

Senator Lemman wanted to know where the training is available.

Mr. Nicoletto replied that the most economical courses were held on a regular basis in Chicago, Illinois and Houston, Texas.

Senator Lemman found the particular request refreshing in that it uses existing staff. He urged other departments to "follow the lead" of this department.

Senator Austerman asked if the training had to be undertaken within the next four months or whether it could wait until the next fiscal year.

Mr. Nicoletto replied that the division has been receiving requests from planners, but is currently unable to provide answers to their various questions.

Senator Ward wanted to know if the division knew what courses were applicable given that a pipeline route was not yet chosen.

Mr. Nicoletto answered that the specialized training would apply to the natural gas facilities no matter where they are located.

Department of Transportation and Public Facilities

KURT PARKAN, Deputy Commissioner, Department of Transportation and Public Facilities detailed the request to hire an Engineer III for two months in 2001. He explained that the department owns the highway right-of-way and therefore must participate in any permitting activities. He continued that the employee in the new position would develop a work plan for the next fiscal year as well as preparing right-of-way files and make them available to the industry.

Senator Austerman calculated the salary for this position at \$22,500 for the requested two months, with an annual salary of \$135,000.

Mr. Parkan responded that the figure was higher than the salary of an Engineer III.

Ms. McConnell interjected that the funds pay for both salary and benefits.

Department of Natural Resources

Mr. Britt shared that during FY 01, the Joint Pipeline Office proposes using the supplemental funds to begin implementing Administrative Order # 187, which allows permitting authorities to begin to prepare for receipt of a gas pipeline application. He stated that the major task would be the creation of a Gas Pipeline Office (GPO) as an operating unit of the State Pipeline Coordinator's Office. He pointed out that currently the Federal State Joint Pipeline Office is the only operating unit of the State Pipeline Coordinator's Office. He explained that the GPO would provide multi-agency one stop permitting authorization and oversight.

Mr. Britt detailed that the supplemental would fund the acquisition of office space, begin to staff the office and create a work plan that would allow the participating agencies to work effectively together. He noted that the Joint Pipeline Office would provide management and engineering technical work for the new office. He stated that he intended to hire a Deputy State Pipeline Coordinator, an Administrative Manager, a Systems Administrator, and a Records Manager by the end of FY 01 to assist him in the startup of the new office. He anticipated that recruitment for these positions would be difficult and that there were no existing employees who were qualified. He referred to the vast amount of data from the previous gas pipeline efforts that must be inventoried with gaps identified and a plan written to collect information in the summer of 2001. He added that the Office would need to work with federal and Canadian agencies to create compatible processes for dealing with the applications, and work with the applicants themselves, and inform and engage the public.

[Note: audio recording of teleconference feed is inaudible.]

RICHARD MCMAHON, Chief, Lands Records Information, Division of Support Services, Department of Natural Resources, testified via teleconference from Anchorage on the goals of the division with regard to the project. The first, he said, is to meet information requirements to allow the GPO to make decisions. He indicated the need to determine the complex ownership and right-of-way matters of the affected land. He stressed that the "sooner we get a jump on that, the faster we can respond to those kinds of questions that come up." He listed the identification of hazardous materials, ecological assessment, water quality, water volume and the archeological impacts as other areas where questions could arise.

Senator Green asked about the addition of two employees included in

the budget request.

Mr. McMahon detailed the four part-time positions spread over five divisions.

Senator Hoffman asked for more details on the \$28,000 request for equipment and the \$185,000 for contractual services.

Mr. Britt replied that the equipment would supply the office itself. He relayed the department's obligation to make the office functional. He listed the largest contractual project for a file inventory, which he hoped could begin as soon as possible. Staff recruitment, he said is another large procurement item in addition to rent charges for the existing staff that would eventually move into the GPO.

Mr. McMahon wanted to make the Committee aware of the departments' cooperation with the University of Alaska on obtaining federal funding for a geological mapping project.

Senator Wilken asked what proposed corridor the mapping project would study. He wanted to know if the study area would follow the rail belt.

Mr. McMahon responded that the study would begin in the Fairbanks area and follow the Alaska Highway to the Canadian border.

Ms. McConnell then noted that the budget request items presented were covered by the administrative order and would be represented in the GPO. She stated that other agencies were also participating and that their presentations would begin.

MARK MEYERS, Director, Division of Oil and Gas, Department of Natural Resources testified via teleconference from Anchorage that the division needs to study four basic issues to properly evaluate any proposal for North Slope gas production.

Mr. Meyers stressed the reason the funding was needed immediately was to provide an "inherent understanding of any proposals by the producers." He noted that these projects would be conducted almost exclusively by consultants with department staff acting as project managers.

Mr. Meyers explained the first study evaluates the royalty. He asserted that royalty valuation makes a sizable difference in the amount of revenue collected from oil and would also have a "tremendous affect" on the natural gas. He expressed the need to understand what the appropriate tariffs would be, what the market

conditions are, and the effects of a possible royalty reduction in the future. He stated that this study would cost \$55,000.

Mr. Meyers detailed the second study, which is to access the demand for in-state natural gas. He stressed the importance of knowing the demand between industrial, commercial, and residential heating users. He relayed the need to also ascertain the demand and the economic viability of supplying natural gas to rural Alaska. He listed the cost of this study as \$75,000 and noted that the work would be contracted.

Mr. Meyers continued that the third item is a "supply side study", which would entail looking at other sources of gas in addition to the known resources on the North Slope. He shared that there has been a great deal of effort to locate oil, but very little to locate natural gas. He explained that this portion of the appropriation would be used to hire a consultant and for contracting helicopters, etc. to perform the necessary field work, beginning in July 2001. He continued that the study would be expanded in FY 02.

Mr. Meyers then listed a revenue study of Prudhoe Bay as the final project. He informed that major gas sales from the reservoir would likely result in lower annual reservoir pressures. He suggested that proper timing in utilizing alternative sites such as Point Thomson, which contain a large amount of natural gas, could minimize the amount of royalty oil losses. He continued that the study would also review actual production methods in conjunction. He spoke of economic factors involved in the two parts of the study.

Senator Austerman requested more backup information on the in-state natural gas demands study, particularly the criteria employed. He then asked about the \$36,000 funding request for personnel costs, but noted no new positions were proposed.

Mr. Meyers replied that the department would engage student interns to compile data. He assured there would be no new positions created. He noted the request also includes funds for travel costs associated with the necessary fieldwork for the supply and demand studies.

Mr. Meyers then addressed the in-state demand study, relaying that additional information would be provided to the Committee.

Co-Chair Donley remarked that the federal government recently renewed the export permit for liquefied natural gas (lng) from the Cook Inlet.

Mr. Meyers affirmed the permit has been renewed through the year 2009.

Co-Chair Donley asked whether the review process was already performed during the application for permit renewal.

Mr. Meyers responded that the Office of Fossil Energy oversaw that effort but that study does not take the global view or the in-state viability into account. He added that the projections were only made through 2009.

Co-Chair Donley commented that this was "disappointing" that the federal government would approve an export permit without performing an analysis of the domestic market.

Senator Hoffman asked if the studies were planned to consider pipeline spurs to increase in-state demand in rural Alaska. He also wanted to know the level of demand in the Pacific Rim and the best method of delivering natural gas to the Rim countries.

Mr. Meyers replied that the export demand is studied on an on-going basis. He stated that the potential for delivering natural gas to rural areas inside the state was contained in the proposed studies.

Office of the Governor

Ms. McConnell announced that the Alaska Oil and Gas Conservation Commission (AOGCC) would have an appropriation request for FY 02, and that the office is involved in the natural gas pipeline project.

KEN FREEMAN, Special Assistant, Business and Gas Line Development, Office of the Governor, explained his charge to take the lead staff roll for the Alaska Highway Natural Gas Policy Council, which was created by a recent administrative order. He described the council as 28 individuals from across the state, co-chaired by Jim Sampson and Frank Brown. He stated that the council in turn is charged with the following duties.

- Identify how to maximize the benefits of an Alaska Highway pipeline project for the citizens of the state.
- Conduct public hearings and take testimony from the public to begin an assessment of the public's priorities with regard to the pipeline project.
- Compile a report for submission to the governor, the Gas Cabinet and the public by November 30, 2001.

Mr. Freeman elaborated that the council plans to hold eight to ten public hearings in either Anchorage or Fairbanks. He noted that the funding request would provide staff support, travel and expenses and contractual services.

Senator Ward asked if the financial planning for the gas pipeline project reflects a particular route. He mentioned a route that led to tidewater in Nikiski.

Mr. Freeman responded that the counsel did not have a position regarding financing. He explained this is because the counsel planned to examine and determine the best financing method if the state were to play a financial role in the project.

Senator Ward then asked about discussions held to date on the matter.

Mr. Freeman relayed that it was not the governor's assessment that an Alaska Highway pipeline precluded a pipeline to tidewater.

Senator Ward emphasized, "I'm not talking about precluding. I'm talking about including and making it part of the original discussion."

Mr. Freeman reiterated the counsel's mission to maximize the benefits to the state of an Alaskan Highway gas line project. One aspect of this process, he surmised, would be to give consideration to the best way to finance and make the pipeline possible. He shared that subcommittees would be formed and that one subcommittee would be directed to investigate the best way to utilize the state's royalty share and whether the state should have a role in financing the pipeline project.

Senator Wilken pointed out that the Department of Natural Resources components consisted of 40 percent of the funds requested but was concerned with the 20 percent allocated to the Office of the Governor. He wanted to know "what we're getting for the over \$400,000". He calculated that 90 percent of the request is for contractual and travel expenses. He asked for an explanation of "contractual".

Mr. Freeman responded that the contractual component would cover the costs of holding public statewide meetings and also examining studies by the Division of Oil and Gas. He indicated that the subcommittees would be posed a number of questions, such as what is the best way to access the natural gas. He listed the options as access on the North Slope and access along the pipeline for

communities. He stated that the council would work internally with the Division of Oil and Gas to ensure there is no duplication of contractual services.

Ms. McConnell stressed the issue of "relative weight in terms of the dollar amount." She acknowledged that public process is particularly important at the beginning of the process and that the council needs funds in order to conduct public meetings.

Senator Wilken countered that the people of Alaska support a natural gas line that runs through the state. He surmised that extensive public input is not necessary until "we put a little more flesh on the bones." He referenced page 13 of the "Description of Services in the Governor's FY2001 Supplemental Gas Pipeline Budget Request." [Copy on file.] Specifically, he noted the eight items that this "well intentioned group" would focus on. These items are as follows.

- Benefits of natural gas development to Alaska communities, including those located in rural areas of Alaska;
- Best uses of the state's royalty share of the gas and promotion or attraction of investment for in-state and value-added processing;
- Costs and benefits of the state taking delivery of its royalty share of the gas in Alaska versus allowing a project developer to include the gas in its delivery flow to the Lower 48 states;
- Options for projects utilizing gas-to-liquids, liquefied natural gas, and natural gas liquids;
- Demand for in-state natural gas consumption and its effects on a gas project;
- Environmental impacts and necessary protection measures;
- Training and readiness of Alaskans for jobs on a gas project; use of Alaska labor pool by contractors and subcontractors, and use of Alaska businesses; and
- State promotion and facilitation of project financing, including potential ownership by the state of some or all of a project.

Senator Wilken focused on the first five and the eighth issues, noting that the Division of Oil and Gas is undertaking these with the three proposed studies. The Department of Environmental Conservation, he pointed out, would handle the sixth item and the seventh is a function of the Department of Labor and Workforce Development. He wondered if the \$400,000 would not be better spent in these departments rather than for the counsel. He stressed that

it is the duty of these departments to maximize the state's investment in these matters.

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Senator Wilken concluded that he thought the \$1.96 million total amount of requested funds could be better spent by using the "professionals who are charged with providing the answers that the legislature requires." He did not question that Alaskans are behind the pipeline project and suggested that the public hearings could be a trade-off to allocating the funds to the agencies that would better address the issues.

Co-Chair Donley commented on the name of the group, the Alaska Highway Natural Gas Policy Council, and noted its bias toward the highway route. He questioned the group's ability to objectively ascertain which route the public prefers.

Mr. Freeman responded that the council is specifically charged with looking at the benefits of a highway route, and then to consider opportunities of spur routes to deliver natural gas to other areas.

Co-Chair Donley challenged that the "governor put the cart before the horse" and that it would have been better to determine the best route first rather than choosing the route then working to determine that it was the best choice. He predicted that during the public process, the council might learn that many people support a different route.

Ms. McConnell assured that an alternate route had not been precluded. However, she stressed that because no buyer has been secured, the Administration is focusing on Alaska's "best shot" for development in a "window that may not last for very long."

Co-Chair Donley remarked that several Alaskan mayors had submitted alternative proposals and that there seems to be local support for a different route than the governor's plan. He stated that it is inconsistent to fund a group that would only advocate one specific proposal when there was interest in others.

Mr. Freeman reiterated Ms. McConnell comments adding that he anticipated increased permitting complications if there were a route change. He stated that the Administration does not see benefits to the state through contractual and employment opportunities. He warned that if Middle East producers approached the state with a liquefied natural gas project proposal, "no one in

the Administration would be turning them away." However, he stressed that 15 years of effort have been invested in a North Slope to Valdez route, with no results. He emphasized that the Alaska Highway route is the best opportunity to "tap into a massive, domestic demand of gas", pointing out that American consumers are using 21 trillion cubic feet of natural gas, with projections of almost 30 by the end of the decade. He asserted that Alaska should be involved in supplying some of that gas.

Co-Chair Donley suggested that instead of spending \$420,000, as proposed, the council could spend \$15,000 and learn that the majority of Alaskans agree that a pipeline should run south, rather than north. He added that most Alaskans would also prefer to maximize the benefits to Alaska, including employment of Alaskans.

Senator Ward agreed and spoke of the constituents in his district who have been working for years on securing a pipeline route that ends in Nikiski. He also agreed that this is a one-time opportunity, but stressed that the alternate routes should not be precluded from discussion.

Mr. Freeman responded that the governor was not precluding a tidewater route to either Valdez or Nikiski. Mr. Freeman specified that the primary goal is to develop a pipeline and that the governor believes that the most likely route is an Alaskan highway project. Mr. Freeman testified that this route is contained in the state as far south as Delta, with a possible spur to Cook Inlet or Prince William Sound.

Senator Ward understood the dynamics that the route would go south at least as far as Fairbanks. He argued that 600,000 Alaskans "would not get another bite of this apple" if the pipeline turned east into Canada. He added that the natural gas supply in the Cook Inlet was depleting and that Anchorage, Kenai Peninsula and Mat-Su Valley residents could benefit from a gas pipeline traversing this area.

Mr. Freeman remarked that the time was right to examine whether there is a possibility to add a spur to the Alaska Highway pipeline leading to Cook Inlet. He stated that the intent is not only to determine what is the best route within the Administration, but to also garner the public's input.

Senator Ward suggested that the governor should issue a new administrative order renaming the task force with a title indicating support for a pipeline following the rail belt and to the majority of Alaska's population.

Co-Chair Donley pointed out that while a pipeline route to South Central Alaska has not materialized after 15 years of work neither had the Alaska Highway route. He also took issue with the witness's emphasis that a southern route would be a spur option, rather than the main route.

Senator Austerman felt that most Alaskans would be more concerned about the well being of Alaska rather than being overly concerned about the energy situation in Oregon and California. He approved of the Department of Natural Resources study that would help make the determination of the best route.

Mr. Freeman responded that the governor has three primary principles with regard to the development of an Alaska Highway pipeline. The first, Mr. Freeman stated, is opportunities for jobs; the second is access to the gas for Alaskans; and finally, best utilizing the state's royalty share. Therefore, he stated that while the Administration wants to bring domestic natural gas to the rest of the country, it is also a "phenomenal opportunity" to bring gas to Alaskans.

Senator Olson commended the valid points made by Committee members regarding the budget and the location of the gas pipeline. However, he stressed the importance of "getting on the table" the pipeline in order to begin discussion.

Department of Law

JANICE LEVY, Supervising Attorney, Oil, Gas and Mining Section, Civil Division, Department of Law testified that the department's request would be used to assist the agencies with the missions that have been outlined. She explained that one "in-house" assistant attorney general along with outside council would work to educate the other departments on the legal issues involved in a project of such magnitude. She opined that Morrison and Foerster, hired to provide expertise, would be cost-effective and valuable for the state. She noted that the firm has been representing the state for many years and was involved in Alaska Natural Gas Transportation Act.

Ms. Levy stressed that any application received by the state would be stringently evaluated to ensure fair review.

Department of Revenue

LARRY PERSILY, Deputy Commissioner, Department of Revenue, testified that it is the department's directive to tax the natural gas no matter where the pipeline is located. He stated that the

department supports the route that is most feasible and profitable and that the budget request is to deal with this issue. If the pipeline is built, he added that the department would need to be educated so that as much value as possible can be captured. He noted that natural gas issue has never been evaluated thoroughly by the department and that the proposed project would be 20 times the volume that is currently exported from Cook Inlet.

Senator Leman asked if the department had plans to review the Economic Limit Factor (ELF) revisions in either oil or gas, and if so when recommendations would be presented to the legislature.

Mr. Persily replied that the department was not working on such legislation but that it has been reviewing the activities of ELF over the past five years and making projections for the upcoming ten years with regard to oil. He shared that a tentative session was planned for Pedro van Meurs, a consultant based in Calgary, Alberta, in the next month to specifically address ELF.

Ms. McConnell hoped the presentation conveyed the magnitude of the project and the importance of beginning the process immediately.

Senator Austerman asked if the total \$420,000 requested would be expended in the next four months with the report written in November 2001.

Ms. McConnell qualified that the original request was prepared in December 2000, and that exact expenditure dates of the funds was uncertain, although anticipated before June 30, 2001. She offered to provide more details on the matter.

Senator Austerman asked about the additional staff positions.

Ms. McConnell stated that the positions would support the council and would provide clerical support and were nonpermanent positions.

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ADJOURNMENT

Co-Chair Donley adjourned the meeting at 10:57 AM.