

HOUSE FINANCE COMMITTEE
March 17, 2004
1:45 PM

TAPE HFC 04 - 59, Side A
TAPE HFC 04 - 59, Side B

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 1:45 PM.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Mike Chenault
Representative Eric Croft
Representative Hugh Fate
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Carl Moses
Representative Bill Stoltze

MEMBERS ABSENT

None

ALSO PRESENT

Jim Whitaker, Fairbanks North Star Borough, Alaska Gasline Port Authority; Bill Walker, Alaska Gasline Port Authority, Valdez; Dave Dengel, City Manager, Valdez, Alaska Gasline Port Authority

PRESENT VIA TELECONFERENCE

There were no teleconference testifiers.

GENERAL SUBJECT(S):

Alaska Gasline Port Authority Application/Stranded Gas

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
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	TAPE HFC 04 - 59 SIDE A	
002	Jim Whitaker, Fairbanks North Star Borough	Observed that the state has fiscal difficulties and is reliant on resources. He pointed out that nothing compares to natural gas. Half a trillion dollars could be generated from natural gas [in Alaska]. There is a Constitutional requirement that state resources be developed with maximum benefit to the state.
013	Mayor Whitaker	The Alaska Gasline Port Authority was formed in 1999 by an average of 80% vote of the citizens of the North Slope Borough, the Fairbanks North Star Borough, and the City of Valdez.
124	Mayor Whitaker	Reviewed the Authority's mission: to enable the development of Alaska's North Slope gas to the maximum benefit to all Alaskans. To bring Alaskan natural gas to North American markets at long-term competitive prices. To bring the benefits of a tax-exempt structure to a North Slope gas project. To support all routes except the "over-the-top" route through the Mackenzie Delta.
307	Mayor Whitaker	In furthering its mission, the Port Authority has partnered with: Bechtel Corp., which now has a complete, hard dollar price for the project; Taylor DeJongh, (description), that has provided a comprehensive economic model of the project; and the firms of O'Melveny and Myers and Walker and Levesque who have provided project counsel
522	Mayor Whitaker	Reviewed the evolution of the project. The Port Authority has: Obtained a ruling from the IRS declaring that income to the Port Authority would be exempt from federal income taxes. Completed a comprehensive hard-dollar project cost estimate Developed a series of economic models that show the projected revenue benefits of the Port Authority structured project based upon a range of assumptions

		<p>Obtained an MOU with Crystal Energy to provide LNG to a receiving terminal off the coast of California, and has entered into confidentiality agreements as a preliminary step toward MOU's with three gas purchasers both on the US West Coast and within Alaska</p> <ul style="list-style-type: none"> • And on the 27th of February, the Alaska Gasline Port Authority has submitted an application under the auspices of the Stranded Gas Development Act and upon acceptance of that application, intends to negotiate a contract for payment in lieu of taxes with the Department of Revenue.
1005	Mayor Whitaker	<p>Discussed the Alaska Stranded Gas Development Act. He observed that the purpose of Alaska Stranded Gas Development Act was not for an automatic reduction in tax regime and stressed that need must be demonstrated.</p> <p>The Act:</p> <p>Encourage new development by allowing fiscal terms to be established relative to a North Slope gas project,</p> <p>Allow fiscal terms to be tailored to particular economic conditions of the project, and to</p> <p>Maximize the benefit to the people of the state of the development of the state's stranded gas resources.</p>
1247	Mayor Whitaker	<p>Discussed the slide 6 observed that there are three components to the gas distribution system: a pipeline from Prudhoe Bay to Valdez for West Coast LNG, a line from Delta Junction to the Canada border and a line from Glennallen to existing South-central gas grid. He emphasized that a competitive gas supply is needed and can be meet through a LNG line.</p>
1549	Mayor Whitaker	<p>Reviewed cost estimates, which would total \$26.05 billion dollars: \$4.3 billion for a gas conditioning plant, \$10.15 billion for pipelines; \$3.7 billion for LNG plant and port facilities; \$.5 billion for LPG extraction facility and \$7.4 billion in soft costs. He stressed that the LNG</p>

		component is necessary to achieve maximum benefits for Alaska.
2017	Mayor Whitaker	Observed that some are surprised at the cost of the project, but emphasized that the Port authority project estimates sufficient.
2145	Mayor Whitaker	Referred to federal income tax relief that would aid the project. The Port Authority has a letter indicating that it can take advantage of federal tax relief. He held that the estimates of savings have doubled.
2317	Mayor Whitaker	Stressed that the LNG is sold on long-term contracts. A 20-year contract is being sought. Separated from LNG, pipeline gas is sold at the discretion of the market place. Long-term contracts with LNG along with the price floor by the federal government are advantageous.
2529	Mayor Whitaker	The Port Authority is not asking for tax revisions at the state, municipal or federal level.
2718	Representative Joule	Questioned if the project had been accepted by the state.
2807	Mayor Whitaker	Observed that the Administration is reviewing the application and felt that there would be a reasonable conclusion. He pointed out that statute allows movement without being under the Alaska Stranded Gas Act.
2859	Representative Joule	Noted that the North Slope Borough has supported stranded gas. He recalled discussions with the North Slope Borough's mayor and questioned the cost of the application.
2942	Bill Walker, Alaska Gasline Port Authority	Stated that the application costs have not been negotiated. He pointed out that they are a non-profit entity. The fee would be determined by the state of Alaska. The cost of gathering the information is separate.
3116	Representative Joule	Stated that he had heard that the fee could be as high as \$750 thousand.
3136	Mr. Walker	Could not comment.
3150	Representative Joule	Asked if the Port Authority Board had time to review the application.
3208	Mr. Walker	Observed that the Board has received the information, but indicated that they had not met on subsequently.
3305	Representative Joule	Create a development plan for municipalities and review significant changes. He observed that a spur line

		through Matsu and a change in the revenue split has been changed.
3358	Mr. Walker	Noted that the discussion was to wait until a final footprint is agreed on for review of changes. The distribution of funding has not been changed. The split is still 30 to municipalities, 60 percent to the state and 10 percent to the Port Authority.
3446	Representative Joule	Questioned the cost of spur line in the application.
3502	Mr. Walker	The cost estimate is \$250 million dollars.
3518	Representative Joule	Questioned if there is a conflict with the municipal advisory committee.
3539	Mr. Walker	Responded that the municipal advisory group is made up of nine municipalities. The three participating municipalities do not have a stronger voice. The Board is only advisory.
3641	Representative Joule	\$15 spent by the Port Authority in favor of an all Alaskan line, while Valdez favored a different route.
3717	Mayor Whitaker	Noted that the positions have been reconciled.
3820	Representative Fate	Referred to the Memorandum of understanding with the California receiving stations and observed that 2.3 BCF was earmarked for the California market. There are no receiving stations currently located in California. He questioned if there were alternative plans in the event that the permits are not issued. He noted that the gas would impact the dynamics of a Canadian line, which was planned at 4.5 BCF.
3911	Mayor Whitaker	Stressed that the demand for gas in California is extreme. He maintained that some supply of LNG is imperative. There have been meetings with the federal side to assure that permits would be available and quickly issued. There were also meetings with the members of Governor Schwarzenegger's administration in California where the same assurances were given. He observed that others are pursuing the same market: ConcoPhillips, Exxon, and BP are also pursuing the market. He acknowledged that there could be problems permitting receiving stations in California, but felt that they would be overcome. He emphasized that there are three components in the project:

		facilitating the project through Alaska and Canada, which would be accomplished through risk sharing and market acquisition; LNG; and providing gas to the Cook Inlet Basin and the Kenai Peninsula.
4141	Representative Fate	Conditioning plant reflects shared costs.
4200	Mr. Walker	Assumes no facility on the North Slope. No efficiencies of existing facilities were considered.
4249	Representative Fate	Asked if there have been discussions with producers in relation to sharing costs and referred to costs for the conditioning plant.
4325	Mr. Walker	Noted that they met with producers in Houston in August 2001. The estimates are based on the roughest road, since there are no guarantees with producers. Economics could not be predicated on shared costs.
4444	Representative Fate	Questioned if there have been consideration of an expansion of the line through Canada up front, in preliminary costs.
4647	Mr. Walker	Stated that they had anticipated the largest pipes: 56 inch line to delta, 46 inch Canada
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4655	Vice-Chair Meyer	Expressed support for a pipeline. He questioned if a timeline had been created.
4602	Mr. Walker	Stated that the project would be completed in 2010 and they would like to start immediately.
4458	Vice-Chair Meyer	Clarified that funding would be by bonds. He questioned if they would work with Alaska Natural Gas Pipeline Development Authority or producers.
4406	Mayor Whitaker	Recognized that any project would be a cooperative and emphasized that there is enough risk for everyone. They are committed to working through political problems with combining efforts. They have cooperated with producers and ANGDA. Stakeholders need to sit down and have discussions.
4233	Vice-Chair Meyer	Asked if they would keep the tax exemption if there were surplus gas.
4143	Mr. Walker	There is no restriction on export. He observed that estimates hold that 95 percent of financing would be taxable.
4055	Vice-Chair Meyer	Questioned if discussion had occurred

		regarding Alaska hire.
4023	Mr. Walker	Stated that the intent is to maximize Alaskan hire and pointed to the constitutional mandate to maximize benefits to Alaskans.
3922	Representative Hawker	Questioned if another entity would be formed to hold the assets and conduct operations.
3902	Mr. Walker	The Port Authority is a tax-exempt structure with a small number of employees. The intent is that the project would be built and operated by others. The Port Authority Act provides financial protection to the state of Alaska and municipalities. The Port Authority would own the assets.
3721	Representative Hawker	Observed that there would be no private equity invested in the project.
3704	Mr. Walker	Agreed and noted that private equity would result in a loss of the tax-exempt status.
3637	Representative Hawker	How would the community dividend be structured.
3619	Mr. Walker	The Port Authority is designed to return as much money as possible to all municipalities: 60 percent to State, 30 percent to municipalities, and 10 retained by the Port Authority. In addition, the state would collect severance tax, corporate income tax. The municipalities created the funding division. Changes would require a unanimous support by the participating municipalities.
3509	Mayor Whitaker	Pointed out that the amount of funds to the state through royalty, severance and income taxes is not relative to the Port Authority; this comes from the producers. He pointed out that the legislation can change the law.
3213	Mr. Walker	Interjected that the legislature can amend the terms.
3126	Representative Hawker	Referred to project financing. He observed that statements were made that 95 percent of the debt would be taxable. He observed that the Port Authority's documentation cites that 24 percent would be exempt, and 45 percent would be taxable.
3020	Mr. Walker	Stressed that the percentages are dependent on the debt service ratio and the amount of equity. He observed that a

		1.7 debt service ratio is needed. The project meets the threshold for financing.
2838	Mr. Walker	In response to a question by Representative Hawker, clarified that taxable status is dependent on use. Use by private entities would result in taxable bonds.
2732	Representative Hawker	Referred to the taxable status of the debt and questioned what would determine its status.
2642	Mr. Walker	Explained that the tax status is dependent on who is using the end result. If the gas from the Port Authority pipeline all went to the Cook Inlet and was used by within a governmental entity the debt would be exempt. This will not be the case. Debt service recovery ratio could be improved if the tax status was changed
2615	Representative Hawker	Clarified that the fact that government is the ultimate beneficiary does not change the status. Questioned if the state of Alaska invested public funds in the project that the coverage ratio would be lowered and improve the quality of executing debt.
2598	Mr. Walker	Agreed that the debt coverage ratio could be reduced, perhaps to 1.5. There are no scenarios that are less than 1.7.
2542	Representative Chenault	Questioned the proposed line size to the South-central gas grid.
2526	Mr. Walker	Responded that there have been discussions of a 24 to 36 line sized; it would be based upon volume.
2437	Co-Chair Harris	Questioned if the three communities are in unanimity.
2403	Mayor Whitaker	Observed that the North Slope Borough has indicated concerns regarding to another project. They are working with the North Slope Borough to resolve these issues and felt that they had a positive working relationship.
2329	Co-Chair Harris	Questioned their relationship to organized labor.
2313	Mayor Whitaker	Observed that there is a commitment to acquiring an acceptable project labor agreement and anticipates that they will be successful. They support Alaskan hire and a labor agreement would also help to know costs.
2149	Co-Chair Harris	Questioned how much of the \$300 million

		annual revenue to municipalities how much to Anchorage
2122	DAVE DENGEL, CITY MANAGER, VALDEZ, ALASKA GASLINE PORT AUTHORITY	Observed that \$30 - \$50 million would be appropriated annually to Anchorage based on per capita. There is a minimum \$50 thousand for smaller communities.
2032	Co-Chair Harris	Observed that municipalities would directly benefit from the project and questioned if other communities have given input.
1935	Mr. Walker	35 resolutions from governments supportive of the project, the Alaska Municipal League has not yet been involved.
1856	Mayor Whitaker	Thought that the Nome conference of mayors has passed a resolution.
1837	Co-Chair Williams	Prudhoe bay to Valdez for LNG questioned if it is competitive.
1815	Mr. Walker	Noted that Alaska has exported LNG since 1969 in the Kenai. He observed that energy crisis in the US has occurred. LNG is going to be needed to take up the drop. LNG in the lower 48 usually comes from other countries. He stressed that importation of LNG creates an opportunity for Alaska.
1617	Mayor Whitaker	Stressed that the questioned is whether LNG would come from Alaska or other countries and maintained that it would not compete with a Transalaska pipeline.
1518	Representative Hawker	Referred to slide 8 and questioned the calculations.
1439	Mr. Walker	Observed that \$299 to municipalities includes 30 percent of the revenue sharing and property tax. The amount indicated for the state of Alaska would also include royalty, severance and income taxes.
1308	Representative Chenault	Clarified that municipalities along the line would receive funding dependent on the tax structure under AS 43.56, up to 20 mils.
	<u>ADJOURNMENT</u>	The meeting was adjourned at 3:16 PM