ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS
February 25, 2003
3:22 p.m.

MEMBERS PRESENT

Representative Vic Kohring, Chair
Representative Mike Chenault, Vice Chair
Representative Hugh Fate
Representative Lesil McGuire
Representative Norman Rokeberg
Representative Harry Crawford

MEMBERS ABSENT

Representative Beth Kerttula

COMMITTEE CALENDAR

HOUSE BILL NO. 16
"An Act amending the standards applicable to determining whether, for purposes of the Alaska Stranded Gas Development Act, a proposed new investment constitutes a qualified project, and repealing the deadline for applications relating to the development of contracts for payments in lieu of taxes and for royalty adjustments that may be submitted for consideration under that Act; and providing for an effective date."

- MOVED CSHB 16(O&G) OUT OF COMMITTEE

HOUSE BILL NO. 57
"An Act amending the manner of determining the royalty received by the state on gas production as it relates to the manufacture of certain value-added products."

- MOVED CSHB 57(O&G) OUT OF COMMITTEE

PREVIOUS ACTION

BILL: HB 16
SHORT TITLE:STRANDED GAS DEVELOPMENT ACT AMENDMENTS
SPONSOR(S): REPRESENTATIVE(S)FATE

Jrn-Date	Jrn-Page		Action
01/21/03	0035	(H)	PREFILE RELEASED (1/10/03)
01/21/03	0035	(H)	READ THE FIRST TIME -

			REFERRALS
01/21/03	0035	(H)	O&G, RES, FIN
01/21/03	0035	(H)	REFERRED TO OIL & GAS
02/06/03		(H)	O&G AT 3:15 PM CAPITOL 124
02/06/03		(H)	Heard & Held
			MINUTE(O&G)
02/07/03	0153	(H)	COSPONSOR(S): CHENAULT
02/07/03		(H)	RES AT 1:00 PM CAPITOL 124
02/07/03		(H)	Scheduled But Not Heard
02/10/03	0172	(H)	COSPONSOR(S): HOLM
02/14/03		(H)	RES AT 1:00 PM CAPITOL 124
02/14/03		(H)	<Pending Referral> -- Meeting Canceled --
02/21/03		(H)	RES AT 1:00 PM CAPITOL 124
02/21/03		(H)	<Bill Hearing Canceled>
02/25/03		(H)	O&G AT 3:15 PM CAPITOL 124

BILL: HB 57
SHORT TITLE:ROYALTY GAS CONTRACTS
SPONSOR(S): REPRESENTATIVE(S)CHENAULT

Jrn-Date	Jrn-Page		Action
01/21/03	0047	(H)	PREFILE RELEASED (1/17/03)
01/21/03	0047	(H)	READ THE FIRST TIME - REFERRALS
01/21/03	0047	(H)	O&G, RES
01/31/03	0107	(H)	COSPONSOR(S): WHITAKER
02/04/03		(H)	O&G AT 3:15 PM CAPITOL 124
02/04/03		(H)	Heard & Held
02/04/03		(H)	MINUTE(O&G)
02/25/03		(H)	O&G AT 3:15 PM CAPITOL 124

WITNESS REGISTER

MARK MYERS, Director
Division of Oil & Gas
Department of Natural Resources
Anchorage, Alaska
POSITION STATEMENT: Answered questions on HB 16, Version H; answered questions on HB 57, Version I, and the division's newer fiscal note, dated 2/11/03, for the original bill version.

JIM POUND, Staff
to Representative Hugh Fate
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions on Amendment 5 to HB 16, Version H.

WENDY KING
ConocoPhillips
Anchorage, Alaska
POSITION STATEMENT: During hearing on HB 16, Version H, offered the company's position on the first amendment to Amendment 5.

VIRGINIA RAGLE, Assistant Attorney General
Oil, Gas & Mining Section
Civil Division (Juneau)
Department of Law
Juneau, Alaska
POSITION STATEMENT: Answered questions about the new definition in HB 57, Version I.

MIKE NUGENT, General Manager
Agrium Kenai Nitrogen Operations
Kenai, Alaska
POSITION STATEMENT: Answered questions relating to HB 57 and his company's operations and contract with Unocal.

JIM CALVIN, Economist and Partner
McDowell Group
Anchorage/Juneau, Alaska
POSITION STATEMENT: During hearing on HB 57, explained the study that the McDowell Group had done on behalf of Agrium.

ACTION NARRATIVE

TAPE 03-9, SIDE A
Number 0001

CHAIR VIC KOHRING called the House Special Committee on Oil and Gas meeting to order at 3:22 p.m. Representatives Kohring, Fate, and Crawford were present at the call to order; Representative Rokeberg arrived immediately thereafter. Representatives Chenault and McGuire arrived as the meeting was in progress.

HB 16-STRANDED GAS DEVELOPMENT ACT AMENDMENTS

Number 0094

CHAIR KOHRING announced that the first order of business would be HOUSE BILL NO. 16, "An Act amending the standards applicable

to determining whether, for purposes of the Alaska Stranded Gas Development Act, a proposed new investment constitutes a qualified project, and repealing the deadline for applications relating to the development of contracts for payments in lieu of taxes and for royalty adjustments that may be submitted for consideration under that Act; and providing for an effective date." [Before the committee, adopted at the 2/6/03 meeting, was Version H, 23-LS0101\H, Chenoweth, 2/6/03.]

CHAIR KOHRING reminded members that there had been a public hearing on the bill, and that the public hearing was closed.

[There was a motion to adopt Version H as a work draft, but it was already before the committee.]

Number 0213

REPRESENTATIVE FATE, sponsor, requested adoption of Amendment 1 [the first of ten amendments on a two-page handout], which read [original punctuation provided]:

> Page 2 Line 6
>
> of natural gas **within or** from the state to one or more....

REPRESENTATIVE FATE explained that this makes it clear that a gas or gas product can be used within the state or shipped outside the state.

The committee took an at-ease from 3:25 p.m. to 3:27 p.m.

Number 0356

REPRESENTATIVE CRAWFORD objected to Amendment 1 for discussion purposes. He noted that the original stranded gas Act was intended to get Prudhoe Bay natural gas to market. This, however, applies to virtually any project in the state, whether it exports gas out of state or uses it in Alaska. He asked whether the legislature wants to give this authority away indefinitely for any project of almost any size. He pointed out that 500 million cubic feet isn't a very large gas project. This could be for any natural gas project over 500 million cubic feet, including one at Prudhoe Bay, at Minto Flats, or Cook Inlet, for example.

REPRESENTATIVE FATE indicated this is based on the "qualified project" under the stranded gas Act [AS 43.82], and the commissioner [of the Department of Natural Resources (DNR)] has the authority to determine [whether a project qualifies].

The committee took an at-ease from 3:30 p.m. to 3:31 p.m.

Number 0609

REPRESENTATIVE FATE said any large enough project "that's on the line of this route" would be qualified, under the commissioner's parameters of qualifying the project.

REPRESENTATIVE CRAWFORD asked where [the bill or Act] shows that it is limited to that route.

REPRESENTATIVE FATE replied that it says the commissioner may qualify the project.

REPRESENTATIVE CRAWFORD asked whether gas discovered in Norton Sound could qualify if the commissioner so decided.

REPRESENTATIVE FATE affirmed that.

REPRESENTATIVE CRAWFORD asked whether it doesn't have to be parallel to any route, then.

REPRESENTATIVE FATE said this is the stranded gas Act. It isn't for new discoveries. He read [from AS 43.82.010], which says in part, "The purpose of this chapter is to (1) encourage new investment to develop the state's stranded gas resources by authorizing establishment of fiscal terms related to that new investment without significantly altering tax and royalty methodologies and rates on existing oil and gas infrastructure and production".

[The definition of "stranded gas" under AS 43.82.900 read as follows: "(13) 'stranded gas' means gas that is not being marketed due to prevailing costs or price conditions as determined by an economic analysis by the commissioner for a particular project."]

REPRESENTATIVE FATE, offering that he doesn't think there is stranded gas in Norton Sound, said that "wherever there is stranded gas that we know of", this Act [would apply].

Number 0775

REPRESENTATIVE CRAWFORD asked whether it couldn't apply to new discoveries in Minto Flats, for example.

REPRESENTATIVE FATE replied no, that it would apply to stranded gas. He added, "Stranded gas is where you have an existing wellhead that has gas that has not been able to get to market."

REPRESENTATIVE CRAWFORD asked whether Representative Fate's intent, then, is that [gas] won't be covered by this [legislation] if it hasn't been discovered yet.

REPRESENTATIVE FATE replied that it isn't stranded gas if it hasn't been discovered yet. In response to a question regarding whether it ever would become stranded after discovery, he said, "It becomes stranded only when that gas is brought to the surface and lifted, and there's no market for it. At that point, it becomes stranded." In response to a suggestion by Representative Crawford that that could happen in Minto Flats, he said:

> This bill doesn't refer to those because it hasn't happened. It could, in other areas, of course; if it does, well, then, I'm sure there will be legislation appropriate to that particular situation. But this only applies to the present stranded gas that we have in the state.

REPRESENTATIVE CRAWFORD said he was glad that was on the record.

Number 0811

REPRESENTATIVE CRAWFORD withdrew his objection.

CHAIR KOHRING asked whether there was any further objection. Hearing none, he announced that Amendment 1 was adopted.

Number 0839

REPRESENTATIVE FATE brought attention to Amendment 2, which read [original punctuation provided]:

> Add new Section 2
>
> *Sec 2 AS 43.82.110(D) is amended to read

Sec. 43.82.110. Qualified sponsor or qualified sponsor group.

(D) has a net worth equal to at least [33] **15** percent of the estimated cost of constructing a qualified project;

REPRESENTATIVE FATE explained the reasoning behind the 15 percent, noting that the figure has been shown to the people involved, including "the governor's oil and gas people." He said it was chosen to try to allow sponsors who otherwise couldn't meet a [33] percent net worth standard to qualify. With a $9-billion project, for example, few corporations in Alaska or elsewhere could participate if the net worth, under the old scenario, must be 33 percent of that project cost. This is a way to get others into the pipeline, and yet is a high enough hurdle that it doesn't dissipate the profitability for major companies that will carry the majority of the financing.

REPRESENTATIVE FATE called it a good attempt to try to get more involvement in construction of the qualified project or the gas pipeline, to spread out risk among those deemed qualified by the commissioner, and to help induce exploration and development of the maturing fields on the North Slope by companies other than the three major ones of today. He acknowledged that negotiations over access still will be required.

Number 1075

CHAIR KOHRING sought confirmation that lowering it to 15 percent wouldn't put a prospective owner of the line in a financially weak position to where that company wouldn't be strong enough to be an owner.

REPRESENTATIVE FATE said it shouldn't affect that at all.

CHAIR KOHRING offered his understanding that this doesn't force negotiations between existing and prospective owners of any gas line.

REPRESENTATIVE responded no, this spells out in law what that bar would be.

Number 1131

REPRESENTATIVE KOHRING asked whether there were questions or comments with regard to Amendment 2. Hearing none, he announced that Amendment 2 was adopted.

Number 1155

REPRESENTATIVE FATE brought attention to Amendment 3, which read [original punctuation provided]:

> Page 2 Line 12
>
> Delete (2) Add (3)

Number 1160

REPRESENTATIVE ROKEBERG objected.

AN UNIDENTIFIED SPEAKER said it is to renumber [paragraph] (2).

REPRESENTATIVE ROKEBERG informed the committee that he had an amendment that deletes Section 2 [of Version H] and subsumes Amendments 3-7 [on the two-page handout provided by Representative Fate]. He recommended addressing his amendment first and then [including the renumbering] in Representative Fate's next amendment.

The committee took an at-ease from 3:39 p.m. to 3:40 p.m.

Number 1271

REPRESENTATIVE FATE withdrew Amendment 3.

Number 1279

REPRESENTATIVE ROKEBERG moved to adopt new Amendment 3, which read [original punctuation provided]:

> Pg. 2, line 12 through Pg. 3, line 6: DELETE ALL MATERIAL

REPRESENTATIVE CRAWFORD objected, requesting an explanation. He referred to [paragraph] (5), which Amendment 3 would delete. [Section 2 of Version H amended AS 43.82.200 by adding a new paragraph (5) as an item that may be included in the contract that the commissioner may develop.] Paragraph (5) read:

(5) terms regarding an equity or other participating interest in a project by one or more Alaska-based corporations or businesses; the terms developed under this paragraph may authorize the holding of equity or other participating interests not to exceed 10 percent of the estimated cost of constructing a qualified project;

REPRESENTATIVE CRAWFORD said removing [paragraph (5)] would remove his support for the legislation because he believed it was probably the best part of the bill, allowing small players into the project.

REPRESENTATIVE ROKEBERG, noting that it had been discussed at the previous bill hearing, explained that [limiting] the amount of equity interest to 10 percent narrows the opportunities for Alaskan businesses to participate. He said there is no commercial interest in [having that cap], and asked why the state should dictate who the parties to the commercial contract could be. He pointed out that the [Act] being reauthorized has no prohibition about the size of the entity. He suggested the language in [proposed paragraph (5)] works against Representative Crawford's desire to allow Alaskan businesses to participate and have an equity interest in the pipeline, and hence he should support the amendment because it deletes the cap. He said anybody who brings value to table can be an equity partner in the contract with the state, and that there's no limitation on it [if Amendment 3 is adopted].

Number 1474

REPRESENTATIVE CRAWFORD offered his belief that the three "majors" could take the project over and not allow others in, even if those others brought 10 percent to the project. He said he thought it was a good idea to have a cap so that smaller [companies] could get in.

REPRESENTATIVE FATE put forth reasons for the 15 percent [in Amendment 2] at the same time this [cap] is being deleted [by Amendment 3]: it lowers the bar to allow more people in the game, although it's up to the commissioner to qualify those sponsor groups. He explained:

> We thought it was just better to get rid of it; that's one reason. And, also, ... there was shipped around here some discussion of 10 percent, which we didn't feel was in the best interest of the State of Alaska,

to try to come up with some kind of a ... strict percentage that we'd heard in the halls here, very frankly.

REPRESENTATIVE FATE said, therefore, that a better route was chosen, lowering the bar from 33 percent. He explained:

It just makes a better condition for not only acceptance of this by the present producers and those people that are already exploring, but for future people that would like to get in, into that play of exploration, ... wherever the gas is, as you so adequately put when we started, whether it's on the North Slope or somewhere else where ... there could eventually be stranded gas. So we've really tried the best way we could to lower that bar, to get these people into this game. And this [limit of 10 percent] doesn't do the job.

Number 1630

CHAIR KOHRING, noting that he and Representative Crawford had talked about this, said he appreciated where he was coming from and also would like to see as much diversification of ownership as possible. However, he disagreed philosophically, explaining one concern: if this provision is in the bill, government is more or less forcing ownership, rather than letting people work out financial arrangements among themselves.

REPRESENTATIVE CRAWFORD proposed deleting the "10 percent" language but leaving what he believes is the operative language: "**terms regarding an equity or other participating interest in a project by one or more Alaska-based corporations or businesses**". He suggested that would make it possible for Alaska-based businesses to get into this game.

REPRESENTATIVE ROKEBERG said he appreciated what Representative Crawford was saying and agreed philosophically that there shouldn't be a bar to Alaskan participation. With regard to the [10 percent] restriction, he inquired about an Alaska-based company that wants 100 percent ownership, for example. He suggested that leaving the wording proposed by Representative Crawford would be merely "jawboning" or "cheerleading."

REPRESENTATIVE ROKEBERG therefore proposed perhaps having a letter of intent that says the intent is to encourage Alaska-based companies to take an equity position in the pipeline. He

also suggested that Representative Fate's Amendment 2 was what was operative, opening the net-worth requirement by more than 50 percent and thereby opening the door to Alaskan businesses.

Number 1794

CHAIR KOHRING asked whether there was any further objection to new Amendment 3.

REPRESENTATIVE CRAWFORD indicated he was withdrawing his objection.

CHAIR KOHRING announced that new Amendment 3 was adopted.

[Written Amendments 4-7 were made unnecessary by the adoption of new Amendment 3.]

Number 1852

REPRESENTATIVE FATE offered Amendment 4 [labeled Amendment 8 on the handout], which read [original punctuation provided]:

Page 3 Line 7

Delete [***Sec. 3. AS 43.82.170 is repealed.**]

***Sec. 4 AS 43.82.170. Application Deadlines is amended to read:**

The commissioner of revenue or the commissioner of natural resources may not act on an application for a contract submitted under AS 43.82.120 unless the application is received by the Department of Revenue no later than June 30, 2004.

The committee took an at-ease from 3:50 p.m. to 3:53 p.m.

Number 1902

REPRESENTATIVE FATE, noting that it would now be Section 3, explained that this extends the [application deadline].

REPRESENTATIVE McGUIRE observed that Version H, Section 3, repeals [AS 43.82.]170, which is identical to [Amendment 4] except that it has a date of June 30, 2001. She asked why the decision was made to put it back in the bill but change the

date, since the policy will be the same as for the existing statute.

REPRESENTATIVE FATE replied that in conversations with the Division of Oil & Gas, it was determined that a definite date is better in order to spur activity. Without that, or if there is an extensive amount of time, he said, "people might use that to their advantage and not really come up to the plate." Suggesting it is in the state's best interest to have people apply as quickly as they can, he added, "This can always be renewed at a later date in subsequent legislative sessions."

Number 1998

REPRESENTATIVE ROKEBERG expressed concern about the 2004 date, which may force the committee to take the bill up 12 months from now. He asked whether that is the sponsor's intention.

REPRESENTATIVE FATE, again citing advice from the Division of Oil & Gas as the impetus, said this is a prod to get people to file an application if they want to get into the game. In further response, he affirmed that he'd considered [that the committee might have to address the provision again in a year]. He explained:

> If the filing of applications isn't what we expect, then we can extend that date, and ... really have a responsibility to assess that and extend that date a longer time ... at the next go-round. It would be a very simple fix; it's a simple amendment to the ... stranded gas Act. And if that's what we have to do, ... then we'll do it. But it does also send some signals that we really want to get cracking on the project, and I really think it's in the best interest to shorten the time, rather than extend it ad infinitum.

Number 2133

REPRESENTATIVE McGUIRE inquired about the reason for the June 30, 2004 [deadline], which is after the legislature [adjourns].

REPRESENTATIVE FATE said he thought it had to do with "the expenditures and the turnover expenditures, and fiscal years' timing, so that some of the expenses incurred - which you will see a cap on later, that are reimbursable - fall under that accounting timeline."

Number 2184

REPRESENTATIVE ROKEBERG offered that ongoing negotiations might not come to fruition before the end of the legislative session, and that the legislature wouldn't want to return for a special session in an election year to reauthorize an Act. Expressing doubt that an executive order could extend the Act, for example, he voiced concern about the timing and asked whether Representative Fate had considered these points.

REPRESENTATIVE FATE replied that the process of filing an application, to his understanding, won't require that type of negotiation, for one thing, although a person "theoretically could get caught."

Number 2252

REPRESENTATIVE ROKEBERG asked whether Representative Fate had considered an expiration date of April 1 of 2004 or, in the alternative, February 1 or May 1 of 2005.

REPRESENTATIVE FATE indicated he hadn't thought about it with regard to the application process, or thought it necessary. However, this day's discussion had raised a "fairly valid point." He asked Representative Rokeberg to state it more clearly if he had an amendment in mind.

REPRESENTATIVE ROKEBERG again expressed concern about the short time, particularly since federal action on any energy bill may affect deliberations regarding the sponsor group and push this into next winter, not allowing time for due deliberation, and because [the Act] would expire when the legislature [wasn't in session].

REPRESENTATIVE FATE deferred to Mr. Myers.

Number 2356

MARK MYERS, Director, Division of Oil & Gas, Department of Natural Resources, specified that [June 30] 2004 refers to a date by which the commissioner of the Department of Revenue would have to receive the application. It doesn't limit the time of the negotiations. Rather, the applicant would have to file by that date in order to start the process.

REPRESENTATIVE ROKEBERG agreed that's what the amendment says, but nonetheless said it doesn't give him much comfort because of the federal energy bill and the timeframe in which to put an application together. Observing that [what later became Amendment 5] allows for outside contractors to be paid up to $1.5 million "to read this application," he surmised that it isn't a two-page application and might take time to complete.

Number 2426

REPRESENTATIVE ROKEBERG asked Representative Fate whether he would be open to [a deadline] of February or March 1 of 2005, for example.

REPRESENTATIVE FATE said he'd have to consider it, noting that "a large part of this came through the desires of the administration to move forward on some of these projects." He recalled that there was no date in the first version of the bill [which never was considered by the committee] "because we just wanted to allow people to come in as they needed to."

REPRESENTATIVE ROKEBERG said he appreciated that, but added, "I just want to make sure the administration knows that the legislature is here."

Number 2457

CHAIR KOHRING asked Mr. Myers whether he had any opinion about perhaps modifying this to March 2005.

MR. MYERS replied:

> I can't really speak for the administration because I don't think I've been party to those discussions. But just from the division's perspective, I don't think we'd have a problem with that. Again, I think ... Representative Fate's discussed the reason you want to have a finite date. The specifics of the timing of that date probably [aren't] as important as having ... a reasonable period of time ... to start the process, but not too long, [so] that you don't accelerate the ... project itself.

Number 2498

REPRESENTATIVE ROKEBERG said he could either offer an amendment or defer to the chair of the House Resources Standing Committee

[Representative Fate, co-chair] to take this issue up [in that committee].

REPRESENTATIVE FATE responded that he'd prefer to discuss it with some people he'd been dealing with in the administration. He said he had no real objection [to an amendment], except for wanting to speed up the process as much as possible. Suggesting it would be up to Chair Kohring whether to entertain an amendment, Representative Fate said he'd be willing to do so in the House Resources Standing Committee, "depending upon our discussions with the administration."

REPRESENTATIVE ROKEBERG responded, given that, that he wouldn't offer an amendment to [Amendment 4] or object to the amendment itself.

CHAIR KOHRING clarified, as chair of the House Special Committee on Oil and Gas, that he won't control whether amendments are submitted. Instead, he announced that anyone is welcome to attempt to modify any legislation.

Number 2521

CHAIR KOHRING asked whether there was any objection to Amendment 4. There being no objection, Amendment 4 was adopted.

Number 2590

REPRESENTATIVE FATE offered Amendment 5 [labeled Amendment 9 on the handout], which read [original punctuation provided but formatting changed]:

New Section 5

***Sec. 5 AS 43.82.240 is amended to read**

Sec. 43.82.240. Use of an independent contractor.

(a) The commissioner may use **[an]** independent **[contractor]** **contractors** to assist in the evaluation of an application or in the development of contract terms under AS 43.82.200. The commissioner may condition the development of a contract under AS 43.82.020 on an agreement by the applicant to reimburse the state for the expenses of **[an]** independent **[contractor]** **contractors, not to exceed $1.5 million per application** under this section.

Number 2642

REPRESENTATIVE CHENAULT objected for discussion purposes. He requested confirmation that the new section would be Section 4, not Section 5.

CHAIR KOHRING and REPRESENTATIVE FATE affirmed that.

Number 2660

REPRESENTATIVE ROKEBERG requested the rationale behind the language "**not to exceed $1.5 million**".

REPRESENTATIVE FATE explained that it caps the amount of reimbursable expenses. He said there are "differing scenarios of that amount," but that it's the amount the administration and the Division of Oil & Gas thought was fair.

REPRESENTATIVE ROKEBERG asked whether Representative Fate had checked to see whether the private sector thought it was fair as well.

REPRESENTATIVE FATE said he hadn't, although Jim [Pound] had.

Number 2704

JIM POUND, Staff to Representative Hugh Fate, Alaska State Legislature, offered his understanding that the industry wanted some type of cap on it, "especially when we're dealing with multiple contractors." He said this "seemed to be an acceptable amount to them as far as a cap for a project of this size."

Number 2721

REPRESENTATIVE ROKEBERG asked how many individual companies Mr. Pound had talked to.

MR. POUND said he hadn't talked to them. "This was through the administration, through discussions they had with the industry," he explained.

Number 2731

REPRESENTATIVE ROKEBERG said he wouldn't object to the amendment, but expressed hope that Representative Fate, as chair

of the House Resources Standing Committee, would get some feedback on it.

Number 2740

CHAIR KOHRING asked if this [$1.5-million cap] is for expenses the industry would occur in the course of the negotiation process that the state would reimburse.

MR. POUND replied no. He said this deals with the contractors that the state would hire in order to negotiate. The statute says [the commissioner] may condition the contract in such a way that the industry actually reimburses the state for those contractors, he added.

The committee took an at-ease from 4:11 p.m. to 4:13 p.m.

Number 2774

CHAIR KOHRING began discussion of what would become the first amendment to Amendment 5. He proposed inserting "reasonable and nonredundant" before "expenses" and asked Ms. King of ConocoPhillips, who was on teleconference, whether it is prudent to do so. He also informed members that Roger Marks of the Department of Revenue was on line to answer questions.

Number 2820

WENDY KING, ConocoPhillips, said ConocoPhillips would be supportive of using that kind of language in here, but asked where it would be inserted.

CHAIR KOHRING, surmising that Ms. King didn't have a written copy, read Amendment 5, inserting the words "reasonable nonredundant" [no punctuation specified] before "expenses".

MS. KING responded that ConocoPhillips would support that language. She explained:

> The key thing here would be that we would encourage the state to work as ... one entity and ensure that multiple contractors are not being hired to provide resource to the same particular issue so we're not incurring ... redundant work. And also we would just encourage that the costs quoted be reasonable. For example, ... we would support the idea of the limit; we do support that limit, but we want to ensure that

the amount quoted is seen as a maximum, and not an endorsement of that actual amount.

Number 2938

REPRESENTATIVE ROKEBERG asked whether it should read "reasonable or nonredundant".

CHAIR KOHRING said he thought that would be prudent. He asked Ms. King what she thought about it, rather than having "reasonable, redundant" [comma specified].

MS. KING responded that it would be acceptable to ConocoPhillips.

TAPE 03-9, SIDE B
Number 2966

MR. MYERS agreed with "the concept of reasonable" with regard to reimbursable expenses. With regard to "nonredundant", however, he said it is harder to quantify and becomes a more subjective standard: some areas clearly would be redundant, whereas others might have some overlap. He suggested there might be issues over whether something is or isn't a legitimate reimbursable expense with that language. From the division's perspective, rather than that of the administration, Mr. Myers said he would be a little concerned about the ability to determine what the reasonable costs are if the word "nonredundant" is added.

Number 2935

REPRESENTATIVE ROKEBERG asked Mr. Myers if changing "contractor" to "contractors" [in Amendment 5 itself] was his recommendation.

MR. MYERS offered his understanding, from talking with Mike Tibbles [legislative liaison with the Office of the Governor] that it was the administration's recommendation. Mr. Myers added, "That's mainly because there aren't really any firms that have the breadth of specialized technical expertise in the wide number of issues that could be negotiated under a gas contract."

REPRESENTATIVE ROKEBERG agreed with that policy, but said:

> When they're going to add the multiple contractors here, there is a redundancy and overlap; then the burden should be on the state to draft their contracts and the scope of work so ... there shouldn't be the

> burden it has to be reimbursed by the applicant. So while I agree with the concept and the procedure here, ... they should be wary of nonredundant scope of activity, and if there is certain overlap, then they shouldn't penalize the applicant for it.

Number 2882

CHAIR KOHRING asked Representative Rokeberg whether he would be amenable to inserting "reasonable" but not "nonredundant".

REPRESENTATIVE ROKEBERG said he liked "reasonable or nonredundant".

Number 2864

REPRESENTATIVE FATE concurred that "reasonable" is appropriate, but said "'nonredundant' could get everybody in trouble," resulting in litigation. He suggested that "reasonable ... and reasonable negotiation" would probably cover redundancy that might result if negotiations weren't in the best interest of both the state and the qualified sponsors.

Number 2829

CHAIR KOHRING moved to adopt the first amendment to Amendment 5, inserting "reasonable or nonredundant". Citing the previous discussion, he explained that his preference is "for the reasons of clarity and strengthening the verbiage here."

REPRESENTATIVE FATE objected.

REPRESENTATIVE ROKEBERG surmised that the Division of Oil & Gas would be "invoicing the applicant for ... the contractor they retained." If the applicant determined there was a redundancy, he suggested, "then they would be able to make a complaint under basic administrative procedures."

CHAIR KOHRING asked Mr. Myers to address that.

Number 2768

MR. MYERS responded that one concern is that in negotiations, one clearly doesn't want to telegraph all areas of analysis or the results of the analyses, which a detailed invoice might give key indications about. With regard to the redundancy, he offered his belief that no one has intended to have overlapping

experts who duplicate. However, in a "line of experts" there might be an overlap of 5, 10, or 15 percent. He asked: When is it arguable, significant redundancy? Furthermore, some points will come across on multiple issues, resulting in some redundancy. He suggested having some language of intent that it isn't "our ability to require them to pay for two nearly identical type of analyses." He added, "I think ... some of the clarity here might be somewhere in between. But ... my concern would be, chiefly, that you get into the issue of ... there's a 5- or a 10-percent overlap, which is inherent, again, in looking at different issues, and it may be inherent in those firms' expertise."

REPRESENTATIVE ROKEBERG surmised that the committee would recognize that a 5- or 10-percent overlap regarding some issues might be reasonable. He suggested that Mr. Myers makes his [Representative Rokeberg's] case by saying one wouldn't want to reveal what is in the invoice. How would a firm know whether something was redundant unless a certain amount of detail was provided about what the firm was paying for? He suggested perhaps invoicing "after the fact rather than before the fact."

Number 2656

REPRESENTATIVE CRAWFORD said he believes "reasonable costs" takes care of the language here. He said he believes, as does Representative Fate, that adding the "nonredundant" language would muddy the waters.

Number 2626

REPRESENTATIVE McGUIRE said she believes it is important to clarify the costs to make sure they're reasonable and that there isn't overbilling or double billing or billing for the same thing to two different companies. At the same time, she said, in shifting the burden, she doesn't want to make it difficult for the state to have to wade through a series of documents and proof, for example, that will actually encumber the process and create more workload for state departments "that we want to be out there issuing permits and helping these guys get moving." She asked to hear more testimony from Mr. Myers and Ms. King on how they believe this will play out in practical terms.

Number 2552

MR. MYERS offered his view that "reasonable" covers a multitude of issues, since totally duplicative work probably would be

considered unreasonable. However, there may be occasions when the state wants to confirm something as well, just to look from another angle. Overall, he said, there has to be reasonableness, so a strong reasonableness standard, to his belief, covers "a multitude of potential sins and keeps us on the straight and narrow" and would [cover] a substantial duplication of effort as well. He suggested it may be somewhat redundant to specify that it is nonduplicative in addition to requiring reasonableness.

Number 2501

MS. KING, in response to Chair Kohring, said:

> First, I'd like to emphasize that ConocoPhillips [supports] the administration obtaining those experts that allow them to be fully informed going into this negotiation, and they need to be prepared to do that. "Reasonable" is acceptable to ConocoPhillips.

REPRESENTATIVE McGUIRE asked to hear from Chair Kohring or Representative Rokeberg why they feel the word "redundant" is necessary.

REPRESENTATIVE ROKEBERG replied that the state has requested multiple contractors, whereas the bill now refers to only one contractor. When there is more than one entity, there is an opportunity for redundancy that wasn't there before. He suggested it is incumbent on the state to make sure that the scope of work in the contracts doesn't overlap any more than it has to as a practical matter. Clearly, he said, there may be some overlap, which he suggested everyone recognizes. He said he didn't think it was that big a deal.

CHAIR KOHRING said he wanted to stay with "the language as original proposed," including "nonredundant", for the reasons just stated by Representative Rokeberg.

Number 2401

REPRESENTATIVE CRAWFORD said it seems reasonableness would include some reasonable redundancy. But adding the word "nonredundant" means that any nonredundancy would preclude paying the charges to the applicant. He again suggested that "reasonable" is the proper term to use, and that adding "nonredundant" will muddy the waters.

REPRESENTATIVE ROKEBERG suggested taking out the "or", then. He said reasonableness is a standard of law that would be applied by the courts anyway, so that's highly redundant. He said the idea that there is reasonable nonredundancy seems to indicate there would be some level of redundancy allowed, but not an unreasonable amount.

CHAIR KOHRING asked Representative Crawford whether he'd be amenable to that. [There was no audible reply.]

REPRESENTATIVE McGUIRE responded, "That gets at it." She said she wants the state to have a second opinion if it needs one, for example, if one opinion comes in that leaves unanswered questions that are reasonable. She said she'd been concerned about having the language be too narrow, and likes the friendly amendment [proposed by Representative Rokeberg].

CHAIR KOHRING asked whether he was hearing that [Representatives Rokeberg, McGuire, and Crawford] preferred to return to his original amendment to [Amendment 5], which he said was "reasonable, nonredundant" [comma specified]. [There was no audible response.]

REPRESENTATIVE FATE said he hadn't heard the original amendment to Amendment 5 that way, but thought it included the word "or".

CHAIR KOHRING read Amendment 5 with his amendment included, specifying that it would insert "reasonable, nonredundant" [comma specified].

Number 2245

REPRESENTATIVE FATE indicated that in effect, therefore, it would be "reasonable" and then "absolutely nonredundant".

REPRESENTATIVE ROKEBERG suggested removing the comma.

REPRESENTATIVE FATE responded that it would, then, be "reasonable specific to nonredundancy," but not reasonable in any other category. He suggested that if there is a desire for reasonableness in any other category, it should say "reasonable and reasonable nonredundancy".

Number 2213

CHAIR KOHRING, in response to a request, restated Amendment 5, adding his amendment, "reasonable nonredundant" [comma not

specified]. He asked whether there was any objection. Hearing no objection, he announced that the amendment to Amendment 5 was adopted.

Number 2187

REPRESENTATIVE ROKEBERG moved to adopt a second amendment to Amendment 5, below subsection (a) of Amendment 5, to add the words "renumber accordingly". There being no objection, it was so ordered.

CHAIR KOHRING indicated the committee would consider Amendment 5, as amended. [A motion to report the bill from committee was made before the chair asked whether there was any objection. Amendment 5, as amended, was treated as adopted.]

Number 2103

REPRESENTATIVE McGUIRE moved to report CSHB 16 [Version 23-LS0101\H, Chenoweth, 2/6/03], as amended, out of committee with individual recommendations and the accompanying [fiscal notes]. There being no objection, CSHB 16(O&G) was reported from the House Special Committee on Oil and Gas.

HB 57-ROYALTY GAS CONTRACTS

CHAIR KOHRING announced that the final order of business would be HOUSE BILL NO. 57, "An Act amending the manner of determining the royalty received by the state on gas production as it relates to the manufacture of certain value-added products."

Number 2003

REPRESENTATIVE ROKEBERG moved to adopt the proposed committee substitute (CS), Version 23-LS0303\I, Chenoweth, 2/25/03, as a work draft. There being no objection, Version I was before the committee.

Number 1987

REPRESENTATIVE CHENAULT, sponsor of HB 57, reminded members that questions had arisen at the previous hearing; those relating to the fiscal note prepared by the Division of Oil & Gas, Department of Natural Resources (DNR), required answers from Mark Myers, who was on teleconference. [The original fiscal note was dated 2/4/03; a new fiscal note with a more extensive analysis, dated 2/11/03, had been provided by the division for

the original bill version, but copies weren't yet available to members.] Also available to answer questions was Mike Nugent, the general manager of Agrium Kenai Nitrogen Operations, which would be [assisted] by this legislation.

Number 1860

REPRESENTATIVE CHENAULT, in response to a request from Representative Rokeberg, addressed changes in Version I. Page 1, line 10, further defines "**manufacturer**" to say "**manufacturer of agricultural chemicals**". The word "increased" on page 2, line 26 [of the original bill, line 27 of Version I] is deleted. Page 2, line 28, of the original bill, which is line 29 of Version I, adds [after "**manufacturer**", the words "**of agricultural chemicals**"]; page 3, line 3 [of the original bill, which is line 5 of Version I], does the same. And [page 3, line 8 of Version I] defines "manufacturer of agricultural chemicals" [whereas the original bill, beginning at line 6, defined "manufacturer"].

Number 1790

REPRESENTATIVE ROKEBERG requested corroboration that the concerns expressed by him and Representative Kerttula at the previous meeting were addressed by the more restrictive change from "manufacturer" to "manufacturer of agricultural chemicals".

Number 1682

MARK MYERS, Director, Division of Oil & Gas, Department of Natural Resources (DNR), offered his belief that the definition has been significantly narrowed to address the agricultural chemical issue. He said the concern about the broader definition of ["manufacturer"] no longer remains. For further clarification, he deferred to Virginia Ragle of the Department of Law, who he said had looked at this extensively as well.

Number 1639

VIRGINIA RAGLE, Assistant Attorney General; Oil, Gas & Mining Section; Civil Division (Juneau); Department of Law, noted that she reviews issues on behalf of DNR. She told members, "We did look over the definitions proposed by Agrium to narrow this, and they feel that this ... would be one way to narrow down the range of applicants ... DNR would be getting to seek relief under this bill." [She was given a copy of Version I at this point.]

REPRESENTATIVE ROKEBERG referred to page 3, line 10, and asked whether the definition of "manufacturer of agricultural chemicals", which mentions "similar chemicals", is narrow enough.

MS. RAGLE replied that it differs somewhat from the language proposed [by Agrium] for the definition, which she'd reviewed on behalf of DNR a couple of weeks ago. She said it didn't appear to differ in a "significant legal way," but pointed out that she'd just looked at [Version I] briefly.

Number 1373

REPRESENTATIVE ROKEBERG asked, "As an attorney, are you comfortable defending the language or pursuing somebody who's trying to breach it?"

MS. RAGLE offered the possibility that it was written by the legislative drafters to conform to (indisc.--papers over microphone) requirements.

CHAIR KOHRING suggested that because Version I has a narrower definition, there should be a change in the fiscal note.

The committee took an at-ease from 4:50 p.m. to 4:54 p.m.

Number 1298

CHAIR KOHRING, indicating copies of the division's 2/11/03 fiscal note were being made, asked Mr. Myers to comment on it.

MR. MYERS acknowledged its complexity and apologized for not being present to explain [the previous version] at the earlier hearing. He then told members it basically is about a $33-million fiscal note over about a seven-year period. The contract price - the contract value - is based on a negotiated contract between Agrium and Unocal [Union Oil Company of California]; Unocal actually owns the gas, and so basically [the state's] royalty commitment is through Unocal. Mr. Myers said there is a contract value for the gas, a known volume of gas being produced from the leases under that contract, and a differential between the actual market value - the prevailing value - of that gas and the contract value under the contract.

Number 1209

MR. MYERS advised members that the negotiated contract with Unocal has provisions that complicate part of the analysis. [Agrium] essentially negotiated a lower contract price or contract value at the time of sale of the plant, basically buying both the gas supply and the plant for a single price. He offered his understanding that, as part of the contract, any lowering of royalty below market value is shared 50-50 between Unocal and Agrium. Expressing confidence that the fiscal effect to the state of $33 million is fairly accurate, he pointed out that approximately 50 percent - not the entire amount - of the benefit would go to Agrium.

MR. MYERS explained that the [fiscal note] analysis recognizes that the amount of gas under that contract is decreasing over time. And there are other scenarios wherein additional gas is bought off other state lease sales. Therefore, the final page of the fiscal note addresses sensitivity analyses. For example, if the plant is only producing gas at about 75 percent of capacity and the amount of gas under the Unocal contract declines rapidly, [Agrium] will pick up more gas off other state leases and the differential could be a little less, around $23 million.

Number 1098

MR. MYERS, mentioning that the division had run a bunch of scenarios, pointed out that the fiscal note strictly looks at Agrium and doesn't refer to any other people taking the benefit of what he called the "double-A" treatment [because this bill amends subsection (aa) of AS 38.05.180]. He explained:

> We put, in the earlier pages, a back-casting of what it would have cost in previous years; that's not actual costs of the bill, but it just shows you a good illustration ... that the numbers are, in fact, reasonable. We went through the fiscal analysis with Agrium as well, and, ... my understanding is, we have a pretty good concurrence ... on the numbers in the fiscal note with Lisa Parker ... and the folks at Agrium. So, again, we believe this is a good, actual calculation, ... with the sensitivity analysis in here for various scenarios.

MR. MYERS pointed out that also complicating the fiscal note is that the contract price is arm's length - the state isn't privy to that data. That is one of the issues that makes calculating additional fiscal effects on other leases more difficult,

because the state isn't a party to the contract between the two parties. Other considerations often come into that, he added, "which is one of the reasons you always keep a market value - a prevailing value - option in your lease form." He informed members that Ms. Ragle is very knowledgeable about both the contract between the companies and some of the history with the "double A" [subsection (aa)] and why it was done.

Number 0972

REPRESENTATIVE CRAWFORD said he understands the worth and need of doing this for Agrium, but asked whether the bill would open up the possibility of big breaks with regard to taxes or royalties down the road.

MR. MYERS replied that he believed it would, but only for other manufacturers of agricultural chemicals. If there were a lot of North Slope gas available, for example, and someone else wanted to do a large-scale agricultural project, it would certainly qualify for it. It would be for similar-type industrial activity, limited, to his belief, by that definition of ["manufacturer of agricultural chemicals"]. He also offered his belief that another company doing a similar type of value-added business would suffer the same competitive issues that Agrium would, and thus it would be reasonable that such a company would receive similar treatment. He suggested that if the desire is to limit potential revenue implications, there could be a sunset placed on the bill; he indicated he wasn't recommending that, but just thinking of possibilities.

REPRESENTATIVE CRAWFORD thanked Mr. Myers and said it was what he'd wanted to hear.

Number 0832

REPRESENTATIVE ROKEBERG asked Mr. Myers whether he'd looked at any model of economic alternatives weighing foregone royalties that would be lost to the state if the company were to shut down because of an inability to have affordable feedstock.

MR. MYERS clarified that the division isn't taking a position on the bill on its merits. He added, "We understand the jobs and the importance of the Agrium plant, and that it is a truly value-added industry." He said the fiscal note just looks at the factual production base over the next seven years. Calling the "what ifs" a two-edged sword, Mr. Myers pointed out that the royalty gas is less than 7 percent of the gas going into the

plant now. Only about half [Agrium's] gas currently is from state royalty leases; the other half is from federal and other lessees. He remarked:

> So, ... we only affect about 7 percent, and if half the value's going to another producer, you're only affecting, effectively, about 3.5 percent of their gas or less in giving them a lower break. Now, that could well help them stay in business, but there is no economic test in the bill, one way or the other, to say whether this is really helping them or not. And I'm not advocating that ... it wouldn't help them. I'm just saying, you can't really quantify, on that small quantity of gas, how it's going to affect their long-term marketability in the [Cook] Inlet.
>
> I think you can say, in converse, though: without a reasonable price for gas, you don't get future exploration ... and development. So ... there's a needed certain level of pricing in the inlet to establish that additional supply, to keep ... them healthy. And I think always, as ... the person paying the lowest value for gas, they're always going to be the lower end of the supply chain. But that lower-end price has to be enough to encourage that exploration [and] development.

Number 0621

MR. MYERS suggested the market value and cost structure should [equilibrate] eventually. He added:

> I don't know, again, if there's a whole lot we can do about it, since the gas we supply in the royalty share's a relatively small ... portion of the gas. So you ask a really complicated question and, again, there is no position [on the bill]. We understand the value that Agrium brings, and I'm not suggesting that this bill is appropriate or not appropriate. We're just actually physically analyzing the percentage of the royalty gas - what the fiscal effect's going to be.

Number 0575

REPRESENTATIVE ROKEBERG referred to one of the tables in the fiscal note analysis, specifying that he was looking at the

royalties paid versus royalty foregone; using Agrium's figures based on the McDowell Group document [signed by Jim Calvin and included in packets], he said the company would be paying $41.5 million and that foregone royalty would be $24 million or so. He asked, if Agrium shut down, whether the product would be lost or would find its way into other markets.

MR. MYERS surmised that the sale of the gas might be deferred, but that ultimately the gas would go into the LNG or utility market, in which case it would get a higher price. He mentioned the question of the loss of the industry and the jobs.

Number 0467

CHAIR KOHRING said that's assuming there would be other takers for the gas, which isn't certain. He offered that if the plant shuts down, ultimately there will be less in royalty [payments] to the state because there will be less need for gas. He specified that he supports the legislation, and emphasized the need to weigh the economic benefits as well as the royalty consequences to the state. He said this is an effort to keep [Agrium] from closing.

Number 0362

REPRESENTATIVE ROKEBERG asked Mr. Myers what kind of rate is being used for discounting the value and the present value basis on the fiscal note.

MR. MYERS answered, "We're using 8 percent."

Number 0331

REPRESENTATIVE CRAWFORD requested to hear verification from Agrium that 50 percent [of the benefit] would go to Agrium and 50 percent would be to Unocal.

Number 0270

MIKE NUGENT, General Manager, Agrium Kenai Nitrogen Operations, responded, "Under the arrangement we have made with Unocal, right now we would share in any additional royalties to the State of Alaska. However, they are not our sole supplier of gas right now."

REPRESENTATIVE CRAWFORD said, "According to your figures, over the next seven years there'd be about $24 or $25 million worth

of total benefit. Half of that would go towards Unocal. Is that approximately right?"

MR. NUGENT offered his understanding that all the figures assume that Agrium is running at full [capacity] and that all the gas is coming from Unocal. If that were the case, the figures would be correct, but that isn't the situation today or what is foreseen for the future.

REPRESENTATIVE CRAWFORD responded that the figures provided by Agrium said $24 million, whereas the Division of Oil & Gas estimated approximately $33 million, based on uncertain figures. He said he wants to ensure that Agrium exists for generations to come. He asked whether a way needs to be found to direct that total $24 million to Agrium, instead of half to Agrium and half to Unocal.

MR. NUGENT replied that splitting it with Unocal is an agreement his company made with Unocal on the gas it supplies.

Number 0030

REPRESENTATIVE McGUIRE asked what percentage of its gas Agrium receives now from Unocal.

TAPE 03-10, SIDE A
Number 0001

MR. NUGENT said the company is operating at 75 percent of capacity, and approximately two-thirds of that gas is from Unocal. For the other one-third of the 75 percent, the company has made arrangements with other suppliers over the winter months to supply that gas.

Number 0063

REPRESENTATIVE McGUIRE offered her understanding that the contracts with Unocal specify that any royalty adjustments - either up or down - are shared or apportioned equally. She asked whether the term is for a set amount of gas for a set period or is adjustable. She said it has been suggested that Agrium might benefit more if there were other suppliers in Cook Inlet so that the supply would be spread out. She acknowledged that she might be requesting proprietary information.

MR. NUGENT answered:

> We had a contract with Unocal to be our sole supplier of gas through 2009. And Unocal has been unable to deliver that full quantity of gas. So, to answer your question, we are in the process, over the short term, to try to develop additional supplies from other producers, and it's out intention, ... going forward, to develop enough relationships with other producers to get our facility back to capacity.

Number 0197

REPRESENTATIVE ROKEBERG asked whether the contract provides for a further [price] break because of Unocal's failure to deliver [the necessary amount of] Agrium's feedstock and because of the necessity to seek other sources of supply.

MR. NUGENT replied that the contract is a subject of litigation at this point. There are provisions in the contract such that if Unocal cannot supply the full amounts, it is liable for some liquidated damages, but Mr. Nugent said those are "relatively minor in the shortfall that we're presently experiencing."

Number 0287

REPRESENTATIVE ROKEBERG referred to Mr. Myers' testimony that the amount of royalty gas is a relatively small amount of Agrium's needed gas. He requested clarification, noting that Mr. Nugent had said Unocal is supplying about two-thirds of the current feedstock but that Mr. Myers had mentioned [3.5] percent for the royalty gas. He asked whether he'd misunderstood.

MR. NUGENT answered, "This gets fairly complicated because it depends on where the gas comes as to what percentage ownership the state may or may not have in a particular property."

REPRESENTATIVE ROKEBERG asked whether the [3.5] percent Mr. Myers had mentioned was in-kind royalty. He referred to the charts in the fiscal note that talk about the amount of foregone royalty because of the bill. Referring to the McDowell Group document in packets, he observed that it says part of Agrium's feedstock comes from federal leases, "of which the state gets 90 percent." He asked whether those types of revenue-sharing provisions come into play under this bill or would be insulated from the legislation.

MR. NUGENT replied that this bill is designed to address [leases] in which the state has an ownership position in the gas.

REPRESENTATIVE ROKEBERG referred to the McDowell Group document and noted that it refers to approximately 25 million Mcf [thousand cubic feet] and a royalty share of $3.4 million, with $3 million in royalty foregone.

MR. NUGENT noted that in the table, the state leases assume that Agrium is operating at capacity, which isn't the case; that half the gas it receives comes from state leases; and that of that portion, one-eighth or 12.5 percent would be state royalty gas. He remarked that because the company isn't able to operate at capacity, there is an impact on the royalty paid. There is a real revenue loss taking place right now, he added.

Number 0593

REPRESENTATIVE ROKEBERG said he was trying to figure out the other sources and where this particular royalty would come into play, since the bill affects only a portion of Agrium's feedstock.

MR. NUGENT reiterated that the bill would have an impact on only those leases in which the state has an ownership position.

REPRESENTATIVE ROKEBERG asked about federal ones or ones where Native corporations have subsurface rights.

MR. NUGENT said those would not [be affected by the bill].

REPRESENTATIVE ROKEBERG asked whether that is part of where Agrium gets its feedstock now. [No answer was discernible.] Observing that the figures project to 2009 and that many assumptions are made in the fiscal note about where Agrium will get its gas, he expressed concern about that.

MR. NUGENT said these forecasts were made on the assumption that the distribution would be the same as it was when [the plant] was at capacity, which was last summer. He said it is hard to predict where gas will be found in the future. In response to a question from Representative Rokeberg, he said there isn't another consumer standing there today to purchase the gas that Agrium wouldn't be consuming if it shut down. He suggested it would be a direct revenue hit to the state, to Agrium, and to the local economies.

REPRESENTATIVE ROKEBERG requested elucidation about the McDowell Group study.

Number 0862

JIM CALVIN, Economist and Partner, McDowell Group, noting that the McDowell Group is a research and consulting firm with offices in Anchorage and Juneau, told members Agrium had requested that his firm look at the economic impacts of its operations on the economies of Alaska and the Kenai Peninsula Borough. The analysis found that the facility directly employs just under 300 people, with an annual payroll of about $25 million; that averages about $83,000 per job, 2.5 times the Kenai Peninsula and Alaska annual average wage. "These are tremendous jobs that really are only found in this kind of value-added manufacturing activity," he remarked.

MR. CALVIN further reported that the Agrium operation purchases gas and a variety of goods and services from Kenai Peninsula businesses, Anchorage businesses, and others; that spending activity, as well as the spending activity of its employees, generates about 1,000 jobs in the Kenai Peninsula area and about $50 million in total payroll - about 5 percent of the Kenai Peninsula employment base. Thus the company has a huge economic presence in the area, with about 250 businesses that enjoy some level of spending activity from Agrium. The borough itself receives more than $2 million in property tax from the plant, which is a big part of its property tax base.

Number 1023

MR. CALVIN, describing "output" as the total value of all the goods and services produced as a result of the company's operation, said output for Agrium is about $300 million a year. He likened the operation to an economic-development director's dream: it creates year-round, high-paying jobs for residents, since he said there is virtually no nonresident participation in the workforce; it creates a high level of spending in the local economy in support of the operations, resulting in "great multiplier effects"; and it requires a high level of capitalization, which means it generates property tax revenues to help local government. Noting that the state spends millions of dollars on economic development kind of activities, he described this as "the kind of economic activity ... we all strive for," remarkable in the breadth and depth of its economic impact on the borough and state as well.

CHAIR KOHRING indicated at some point he'd mentioned a billion-dollar effect to the economy, and said he stood corrected. He thanked Mr. Calvin for the information.

Number 1123

REPRESENTATIVE ROKEBERG cited a figure in the McDowell Group analysis about payroll impacts of $383 million. He requested a definition of "payroll impacts."

MR. CALVIN answered that it is the total payroll over the 2003-2009 period addressed in the various fiscal notes. He explained that the McDowell Group had tried to total what is at stake. He added that it had been [adjusted for inflation] a little.

REPRESENTATIVE ROKEBERG referred to the gross figures for foregone royalty [to the state] and an indication in the company's document that the foregone royalty, in terms of [Agrium's] costs, had gone from 1 percent of the plant's total economic output, or less than 6 percent of its $50-million-a-year payroll. He asked about that.

MR. CALVIN responded that rather than focusing specifically on the impacts to the state's coffers, the McDowell Group had broadened it, looking at what is at stake. He said although there is $3 million a year or so of foregone revenue, there is $300 million worth of economic activity that stems in part from that. He described it as a "give a little, get a lot" picture that his company is trying to present.

Number 1268

REPRESENTATIVE ROKEBERG asked Mr. Calvin whether he believes the legislation would be significant in helping the economic health of [Agrium] so it can continue to operate.

MR. CALVIN replied that he wasn't familiar with the margins under which Agrium operates, but that there is no doubt the bill would significantly improve its likelihood of remaining in business.

Number 1308

CHAIR KOHRING acknowledged that the fiscal note is complicated and difficult to comprehend, but said his comfort about it is greater than at the previous hearing. He offered his belief

that the economic benefits far outweigh the modest amount that the state would forego if this legislation went into effect.

Number 1370

REPRESENTATIVE FATE moved to report [CSHB 57, Version 23-LS0303\I, Chenoweth, 2/25/03] out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 57(O&G) was reported from the House Special Committee on Oil and Gas.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at 5:29 p.m.