

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

February 10, 2004

1:14 p.m.

**MEMBERS PRESENT**

Representative Vic Kohring, Chair  
Representative Jim Holm, Vice Chair  
Representative Cheryll Heinze  
Representative Lesil McGuire  
Representative Harry Crawford  
Representative Beth Kerttula

**MEMBERS ABSENT**

Representative Norman Rokeberg

**COMMITTEE CALENDAR**

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 296

"An Act making an appropriation to the Alaska Natural Gas Development Authority; and providing for an effective date."

- MOVED SSHB 296 OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 296

SHORT TITLE: APPROP: NATURAL GAS DEVELOPMENT AUTHORITY

SPONSOR(S): REPRESENTATIVE(S) CROFT

05/02/03	(H)	READ THE FIRST TIME - REFERRALS
05/02/03	(H)	O&G, RES, FIN
01/20/04	(H)	SPONSOR SUBSTITUTE INTRODUCED
01/20/04	(H)	READ THE FIRST TIME - REFERRALS
01/20/04	(H)	O&G, RES, FIN
02/10/04	(H)	O&G AT 1:00 PM CAPITOL 124

**WITNESS REGISTER**

MARK GNADT, Staff  
to Representative Eric Croft  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Presented SSHB 296 on behalf of  
Representative Croft, sponsor.

NELS ANDERSON JR.

Dillingham, Alaska

POSITION STATEMENT: Testified in support of SSHB 296 and SB 241, the companion bill.

HAROLD HEINZE, Chief Executive Officer

Alaska Natural Gas Development Authority (ANGDA)

Anchorage, Alaska

POSITION STATEMENT: Testified in support of SSHB 296; provided information and answered questions about ANGDA's need for additional funding to complete its work relating to the route for the natural gas pipeline.

STEVEN PORTER, Deputy Commissioner

Office of the Commissioner

Department of Revenue

Juneau, Alaska

POSITION STATEMENT: During hearing on SSHB 296, provided information and answered questions.

PAUL FUHS, Lobbyist

for Backbone 2

Anchorage, Alaska

POSITION STATEMENT: During hearing on SSHB 296, provided information and answered questions; also outlined Backbone 2's objectives for the natural gas pipeline.

ROBERT VALDATTA, Member

City Council

City of Seward

Seward, Alaska

POSITION STATEMENT: Testified in support of SSHB 296; noted that Seward has passed a resolution for a total "all-Alaskan" gas pipeline.

WILLARD DUNHAM, Member

City Council

City of Seward

Seward, Alaska

POSITION STATEMENT: Testified in support of SSHB 296; provided information and answered questions.

#### **ACTION NARRATIVE**

**TAPE 04-3, SIDE A**

Number 0001

**CHAIR VIC KOHRING** called the House Special Committee on Oil and Gas meeting to order at 1:14 p.m. Representatives Kohring, Holm, Heinze, Crawford, and Kerttula were present at the call to order. Representative McGuire arrived as the meeting was in progress.

HB 296-APPROP: NATURAL GAS DEVELOPMENT AUTHORITY

[Contains brief discussion of HB 395 and HB 420]

CHAIR KOHRING announced that the first order of business would be SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 296, "An Act making an appropriation to the Alaska Natural Gas Development Authority; and providing for an effective date."

CHAIR KOHRING said the committee was going to hear a continuation of HB 395 and HB 420, but the work to combine those bills is still ongoing. Consequently, the [resulting] bill is not ready to be brought back to the committee and thus will be held over until a subsequent meeting.

CHAIR KOHRING noted that Representative Rokeberg was in Fairbanks for the [Conference of Alaskans].

Number 0129

MARK GNADT, Staff to Representative Eric Croft, Alaska State Legislature, presented SSHB 296 on behalf of Representative Croft, sponsor. He noted that Representative Croft is also currently in Fairbanks "keeping a close eye on the 55 delegates." Mr. Gnadtt characterized SSHB 296 as an appropriation to the Alaska Natural Gas Development Authority (ANGDA). He said this bill had been introduced last year. The reason for the sponsor substitute is to raise the appropriation amount to what was asked for by ANGDA itself, which is where the \$2.5 million figure came from. This bill would help to support ANGDA, which is the voter-created authority created to look into the options of the LNG [liquefied natural gas] project. It may now be expanding to help lots of other developments of bringing Alaska's natural gas to market, he said.

MR. GNADT said to date, ANGDA has received \$350,000; the minimal amount it would take to get started. He said [ANGDA] had done a great job with so far but it had reached a point, as mentioned in House Finance Committee testimony, that it cannot continue its work without any more appropriations. Hopefully, he said

this bill will be a vehicle for [ANGDA] to get the money it needs to fulfill the voter mandate to research bringing natural gas to market.

Number 0368

NELS ANDERSON JR., testified, he noted that he is a former state Representative and a member of the Senate. He said he was one of the sponsors of the Alaska natural gas pipeline initiative passed in 2002, and he is really looking forward to this money being appropriated so ANGDA can move ahead with the work it needs to do before the June 15 deadline. Mr. Anderson said he appreciates the sponsor substitute for HB 296, and is in support. He stated his belief that the \$2.15 million that ANGDA has requested is necessary, and he urged the [legislature] to pass it as quickly as possible. Mr. Anderson said he is also in support of SB 241, the companion bill to SSHB 296, which also requests \$2.15 million for ANGDA. Residents of [rural] Alaska look at this to answer several questions facing them, he said. The cost of energy in rural Alaska is very high. In Dillingham, heating oil is \$2.20 per gallon, gasoline is \$2.85 per gallon, and electric energy is 20 cents-plus per kilowatt-hour. The surrounding villages have much higher costs for energy needs.

MR. ANDERSON said it is thought if low cost energy came from stranded gas on the North Slope, it would help [residents of rural Alaska] bring down the cost of energy by utilizing that gas to generate electricity at a lower cost than what is currently being done with diesel. In addition, he said this is seen as an opportunity to provide low cost energy to revive the salmon industry in [rural Alaska]. Mr. Anderson remarked, "I think most of you know that we have been going from one disaster to another, and I'm not sure if 2004 is going to be any better." He said one rumor is that fish are going to be sold for between 30-35 cents per pound. Those are disastrous rumors if they are true, he remarked.

MR. ANDERSON said fishermen cannot make a living from that kind of a price for salmon. He said this relates to low cost energy from natural gas in that [the state] could develop a on-shore year-round value added seafood processing capability if there was low cost energy available. Mr. Anderson said low cost energy would allow [fishermen] to hold large amounts of salmon in freezer facilities, and also provide the capability of producing world-class salmon products.

MR. ANDERSON remarked, "We see this also as a way of, ... once the gas is online, to get gas into the treasury to help us ... pay some very serious budget crunches, because I know all of you have schools in your districts that are cutting back severely." He said the University of Alaska needs more money to educate [Alaska's] people for development prospects for the future. Very serious "life-held" safety considerations are being cut back because of the lack of money in the treasury, he said. Mr. Anderson remarked, "We see a gas pipeline being built very, very soon as a way of creating jobs that we in Bristol Bay ... in addition to putting new money into the treasury that we need to provide money for these services that we see being cut back." He urged the committee to expeditiously move SSHB 296 forward.

Number 0756

HAROLD HEINZE, Chief Executive Officer, Alaska Natural Gas Development Authority (ANGDA), testified. Noting that he had sent down a packet of information, he said he didn't intend to refer to everything in it in great detail. Bringing attention to the outline contained in the packet, he remarked:

In terms of the Alaska Natural Gas Development Authority, ... spoken by the sponsor's representative, we have been preceding since the start of this fiscal year with about \$350,000 total funding. We have, at this point, basically expended that money, and we are not able to take on any additional work until we receive further funding. I have detail for you there, so that by almost of a contract categories, if ... you would, how we would propose to spend an additional \$2.15 million dollars.

That money basically broadly covers three things. One, it provides us with the expert information, so that we can deal with the business structure of ANGDA. Keeping in mind that our business contribution to moving this project forward is to have the lowest cost of service possible to take advantage of the fact that we are a public agency. We enjoy certain tax and financing advantages because of that.

Secondly, the money provides the development of a model and the performance of what I call an integrative analysis [testimony interrupted because of technical problems].

The committee took a brief at-ease.

MR. HEINZE resumed his testimony:

The work here is, again, cover the business structure of the authority in which we are trying to achieve the lowest cost of service possible. We are developing a model and it will provide a basis for an integrative analysis of the benefits of the authority's work to Alaska and Alaskans.

... Finally, there is money included in there for the verification of the ... key elements in the design-cost estimate that's scheduling of the projects.

MR. HEINZE explained that he'd provided a sheet of information in which details of the 11 elements were included as the requirements in Ballot Measure 3 [put forth in the 2002 election] for the development plan to be developed by June 15 of this year. He said those 11 items are listed and that he'd cross-referenced how the money would be used to satisfy those 11 elements.

Number 1013

MR. HEINZE said the events of the last few weeks have caused those thinking about and working on the gas issue to kind of rethink some things. He remarked:

In particular, the entry of MidAmerican [Energy Holdings Company] into the issue. Interject some new opportunities in our mind. We are certainly aware that the state has before it two applications for highway projects. We've long taken the position that we would like the opportunity to both contribute towards that process and to interact with the sponsors of those projects.

... In particular, as we've kind of looked at what's going on right now on the stranded gas applications, I ... wrote out three areas that if broadly, I thought we could help in. Number one is, frankly, doing the work - just the actual review, ... processing, ... understanding, and evaluation of these applications is going to take a lot of work by (indisc.) resources.

For instance, we have already started to work on the benefit analysis portion, and that would seem to be an important component in the state's considerations of the applications and all the terms ... of other deals that may be made. Secondly, because of the uniqueness of our business structure, there may be ways that we can help improve the market ability of the gas for the sponsors.

... This would represent a way the state might contribute for moving the project forward with, frankly, not having to give up something. Being in a positive mode rather than give up mode, and we'd like to certainly be partial to that.

Number 1147

MR. HEINZE continued:

I am very excited about the possibility that somebody else is interested in building a project out there. We would love to find a way to align our project with them. It would help, probably, the finances of both projects, but maybe even more importantly, we would like to make sure that the benefits of North Slope gas accrue to Alaska and Alaskans, so even with these two stranded gas applications, we see the authority as a very positive player, ... and we are working towards that end.

Again, we see ourselves as working as part of the administration's team. Right now, Mr. Porter and myself spend a great deal of time working through the contracts that we're issuing and would like to issue. Making sure that the state receives good and valuable information that helps in all regards the (indisc.) gas issue.

... He and I, in the past, have talked about this concept, that I think he'll tell you more about, where it seems wise for the state to look at all the elements of North Slope gas in ... one pot ... and figure out how to fund it.

Number 1243

MR. HEINZE continued:

To that end, Mr. Porter had a long discussion with my board yesterday, and as a result of that discussion, the board unanimously passed a resolution in support of the proposal you're going to hear from him on funding.

... I've written it out there for you, but basically it just says the board of the Alaska Natural Gas Development Authority supports the appropriation of \$3 million dollars in the remainder of FY 04 to the Department of Revenue for work related to bringing North Slope gas to market.

We certainly see our funding as part of that, and we believe that ... we can contribute to the total interest of the state, as well as move forward towards our project. Obviously, there's a lot of questions, and things about that I don't know at this point because it's a dynamic process that, in my mind at least, we'll know over the next couple months.

... On the very last page of my exhibit; I did go through some alternative sort of scenarios that I made up, and it just seems to me that the level of funding we were requesting was an appropriate level to carry out any of those scenarios, and ... I thought that was encouraging to me.

Number 1329

REPRESENTATIVE HOLM remarked:

In light of the fact that Flint Hills is in the process of buying Williams Petroleum in Fairbanks; I noticed on your presentation to us some time ago that you had a petrochemical plant possibility in the Valdez area; have you considered since Flint Hills is a huge petrochemical corporation in other places of the world that that should not be considered more in the North Pole area rather than down towards Valdez.

MR. HEINZE said the delineation of the petrochemical area on that chart was one of convenience. In general, he said people think of the petrochemical industry at tidewater "that doesn't mean in the Alaskan case, for instance, that that's necessarily where it would have to be." Mr. Heinze said in the funding

request he included an amount of \$20,000, which is called "down the stream concepts." He said the idea would be for ANGDA itself not to get into the petrochemical business, but to look at some of the more unique ideas and possibilities. Mr. Heinze suggested that it may be desirable for Alaska to produce home insulation material for use in the state. He said the value that might add to the economy might be very large, and it is those opportunities he thinks the state should look into. He remarked, " I ... am not biased towards any one location or whatever; ... I've got to figure there's ways that entrepreneurial people will figure to move things around."

Number 1475

REPRESENTATIVE KERTTULA told Mr. Heinze that he'd done a remarkable job with very little and she and the committee really appreciate it. She asked if the full amount [of the appropriation] will go directly from the Department of Revenue (DOR) back to ANGDA. She remarked, "So that you have enough money to get us forward," and said she wanted to ensure that Mr. Heinze has secretarial help and supplies. Representative Kerttula said she thought the intent is also to be able to give [ANGDA] enough money so that it can physically go forward, and asked Mr. Heinze if these funds will be brought right back to him.

Number 1535

MR. HEINZE remarked:

It is my understanding that what we are proposing here is that the Department of Revenue receive \$3 million dollars. ... Certainly, our need for funds is part of the totality that is on the table in that \$3 million dollars. Exactly the when, why, and how, of that money coming back is a process that would operate between the authority and, in this case, Mr. Porter as the deputy commissioner of revenue, and frankly that's what we've been doing all along anyway.

... I guess I would just suggest to you that I'm comfortable in my ability to ... justify the expenditures and the value we would receive for those expenditures. I'm very comfortable in making our case and ... meeting our priorities, our needs, and that. On the other hand, I have no problem entering into this in a flexible sort of way also, because I do

believe that the events of the last few weeks have changed the whole spectrum of opportunities for us on North Slope gas in ways that I would not have thought of ... a month or even two months ago, and I would like the opportunity to maneuver a little bit as part of the administration's team and let ANGDA make what contributions we can, as well as to pursue some ideas we have as to how to move the whole cause forward.

MR. HEINZE said almost all of this money is contractor money and is [not meant] to hire a lot of employees. He explained that he will have to hire some temporary employees to help monitor and direct the contract to work. He said his intention is to not have to do that himself. He noted that he does have a executive assistant and that position may need to be expanded depending on the demands that are placed on that employee at this point.

REPRESENTATIVE HEINZE said she wanted to ensure he had the resources [necessary] to get the information, and that she knew Mr. Heinze was doing a good job.

Number 1682

REPRESENTATIVE HEINZE asked Mr. Heinze if his authority is broadened in SSHB 296.

MR. HEINZE remarked:

The authority in ... [SSHB 296] as it exists right now, simply, has the same mission as it always has had. This just provides funding to do a certain kind of work. Again, it's the actual things we do to sort of delve in the detail, and until you get down to the very details of the spending plan, it's not clear exactly what kind of things are going on here.

What the money does provide is for the authority to understand itself in a business-plan sense very well. What it is weak in, and purposely so, is in the more design and engineering side of the project, and that's okay because work in that area can be pushed forward into the next phases. Remembering again, that the \$2.5 million dollars is not an end unto itself, it just gets you one step closer, and there is a huge funding requirement that comes up beyond this that we have to decide about.

REPRESENTATIVE HEINZE asked what assurance Mr. Heinze would have that the money would go to ANGDA, and in doing all this where is the difference in ANGDA's perimeters.

MR. HEINZE remarked:

In this case, broadly, what we're recommending is from the authority's point of view is that our specific request for the \$2.15 million dollars be included as a broader request for \$3 million dollars. Certainly, it is our intent to participate to whatever extent we can in any of the Stranded Gas Act applications, working with those sponsors, doing whatever we can do to contribute towards the state effort.

So in that sense, yes, our scope is probably broadened. It is taking on some other responsibilities that I probably hadn't thought about a month ago or two months ago. So there is some change there. As far as our statutory requirement, there is no change in this bill.

Number 1873

STEVE PORTER, Deputy Commissioner, Department of Revenue (DOR), explained that as Mr. Heinze had stated, [DOR] did visit with ANGDA the previous day and ANGDA did support the resolution and recommendations that the department made in that the amount of this legislation be increased to \$3 million, and that the appropriation be directed through DOR for North Slope gas work in general. That would basically cover both Stranded Gas Act negotiations and ANGDA's responsibility underneath [Ballot Measure 3], he said. He remarked:

One of the things we have found with the authority, over time, is as we look at those elements that are required - the 10 or 11 elements required in the statute - ANGDA has come to us a number of times and asked us if we could not provide them with extra seats from our staff that wouldn't necessarily require a contract or funding, but would allow us to help them out ... and assist them.

We have done it on occasion. On occasion, we have actually had reports that we were able to provide them with information, so that the information was already available and neither one of us had to contract that

out. There are other situations now, as we find ourselves in, is that we may actually be doing our own research on the Stranded Gas Act that parallels the Alaska Natural Gas Development Authority.

That seems appropriate to kind of look at those resources as a whole and look at the projects as a whole and begin to make decisions .... The goal from the state is to provide the authority ... with all the finances they need to meet the requirements already in statute.

Our goal as well though is to make sure that, especially in the short term, ... we provide the authority with the finances and the support from a research standpoint to position themselves to be able to participate in whatever way they can in the current negotiations, so at least in the immediate focus some of those feasibilities ... [that] come forward may not relate to the overall project development plans, but we may want to restructure the timing of when some of those obligations are met.

Number 2017

REPRESENTATIVE KERTTULA asked Mr. Porter about restructuring the timing.

MR. PORTER remarked:

The authority moves forward without acknowledging that you have two Stranded Gas Act negotiations going on. The timing and the types of research they would do ... could be quite different in meeting their obligations under these statutes, ... basically, to prepare, develop, and plan. Our recommendation to them is to recognize those things that are going on around them, and if there are things and research that needs to be done to support the overall negotiations, ... that are doing those first.

... Stranded Gas Act negotiations need that information, as well as the authority needs that information, so they can move forward.

MR. HEINZE said he had not "formed anything hard in his mind," but in the course of discussion over the last week or so, it has

become clear to him that ANGDA may miss its deadline of June 15 by a month or two. What would be gained in taking the time to work on some other aspects of this may be a project that not only is demonstrative and feasible, but actually has a much higher probability of going forward, he explained. Mr. Heinze remarked, "This is one of those where I think there's a hard trail between meeting the exact deadline and finding ourselves in a place where it's a dead end, and even if we find the project feasible, but if we were not able to build the momentum to go forward, it could be a dead end." He said he thought it was worth a couple of months of maneuvering to see if the probability of the project going forward can be greatly increased by tying it to other things that are going on and that need to go on in the short term.

REPRESENTATIVE KERTTULA remarked, "Well, I hear the wisdom in that." She asked what should be done about the fact that there was an initiative with a deadline, and she said what Mr. Heinze was saying certainly sounds reasonable. She told Mr. Porter that she wants the assurance that Mr. Heinze and ANGDA are going to get the funding they need and deserve to do the work for DOR, and also meet their obligations. She commented that she knows that is subject to funding.

MR. PORTER remarked:

I spent a substantial amount of time on that very issue yesterday with the authority, and apparently convinced them that that in fact is the case because we did get a unanimous, basically, vote from them in support of us. That is our intent ... to support them fully with moving them toward other statutory obligations while, at the same time, encouraging them to participate fully in ... the project (indisc.) we have before it.

REPRESENTATIVE HEINZE asked if it was correct that it was for all stranded gas projects or permitting.

MR. PORTER said [DOR] currently has two stranded gas applications before it that the state is negotiating, one with ConocoPhillips Alaska, Inc., BP, and ExxonMobil Corporation, and a second one with MidAmerican Energy Holdings Company ("MidAmerican") and their partners Cook Inlet Region, Incorporated (CIRI), and Pacific Star Energy. He said those two contracts are going to require a substantial amount of work and effort on behalf of the state. As a parallel to that, there is

also the Alaska Natural Gas Development Authority. He said the \$3 million is basically to cover both ANGDA and the additional costs [the department] believes will be incurred by the state to negotiate those.

Number 2291

REPRESENTATIVE HEINZE said she wanted to ensure that there is enough money for both, and asked if it would be possible to come up short on the funding for the authority after the permitting is already done.

MR. PORTER remarked:

It might be helpful to understand that beneath the Stranded Gas Act, we have the ability to negotiate with the applicants a reimbursement agreement of up to a million and a half dollars per application. That is specific (indisc.) contractors to fulfill our responsibilities underneath those applications.

So it ... is very specific on ... what we can spend that million-and-a-half for, but it does provide us with some additional funding just based on those contracts. This funding would be that type of funding that is outside of the million and a half reimbursement agreement that we might execute in bill companies.

... There are things that the state might need to do on the standpoint of staffing and resources that would not be reimbursable underneath that contract. We believe that the amount of money ... we have placed before the committee is sufficient to meet both those needs.

Number 2406

PAUL FUHS, Lobbyist for Backbone 2, noting that the group is a nonpartisan citizen's organization, told members that Backbone 1 was formed to stand up for Alaska's interests in the merger of BP and Arco, and is now really focused on the gas [pipeline] issue. He said he is really appreciative of everything being heard today because it looks like people are supporting this. The administration's on board, Senator [Gene] Therriault has a companion bill in the Senate, and it looks like the funding is going to be there, he said. Mr. Fuhs said [the committee]

absolutely needs this information because the decisions that are going to be made right now on gas [pipeline] development are some of the most [important] decisions that will be made for the future of the state "and maybe forever."

MR. FUHS said he couldn't think of any other project since the oil pipeline that is going to have this kind of impact on the state, both on the private business side and also on the government side, in terms of fiscal revenue for Alaska. The gas pipeline is the fiscal plan for Alaska, he said. He indicated that the revenues from a gas pipeline are estimated to be up to \$1 billion. This is the way that the state is going to fund the government through resource development. There's no other project or industry that can provide these kind of revenues to Alaska, he said.

MR. FUHS said part of the real advantages of the development authority is the income tax exemption, which is 30 percent of net revenues. Noting that people have said this project is uneconomic, he said that's just not true, and no data has been provided to show that it is. He said there is do data on the Canadian pipeline, there is no data at all, he remarked, "You are being asked to make these decisions completely blind." That is why this information is so important that is going to come out of this money that the state is spending; the data can be used to help judge the Stranded Gas Act applications and so forth, he said.

Number 2496

MR. FUHS said [Backbone 2] is in support of this expansion. Addressing a previous question by Representative Heinze, he said Senator [Scott] Ogan does have a bill which will broaden the authority for them to be able to look at whether a tax exemption applied to a Canadian highway [pipeline] would make it more economically feasible. He said people have said it's really not feasible without federal subsidies and it looks like those subsidies aren't going to be forthcoming. He remarked:

I think what Harold was trying to say is rather than look at ... the stranded gas applications, they're going to come to us and say, '... Give up all your royalties or give up your severance taxes or production taxes, so we can have this project, and what the authority can say is, 'Well, maybe we could give you a tax break and give you the same thing where Alaska doesn't have to give up its benefits,' and if

we get the all-Alaskan project that people voted on, then we're going to get a lot more benefits from the ownership of that project.

MR. FUHS noted that he had provided members with a 12-page executive summary entitled "Alaska's Strategic Interests in North Slope Gas Development," which he said may be the first example of an attempt to try to comprehensively put these issues together. It is a very complex issue, and it is really hard to stay on top of what is going on and what the state's interests are, so he tried to do that, he said. Noting that he had also provided a poll that was recently taken in January by Ivan Moore Research, Mr. Fuhs said [Ballot Measure 3] passed 2 to 1 by the voters, and now those numbers have gone up even higher in the latest poll that [Backbone 2] has. He stated:

They show, for preference of Alaskans, LNG to Valdez, 65.5 percent favor that, and the highway route 19.3 percent, well, that's almost 3 to 1, for those people who do have an opinion. The other 15 percent are undecided.

Number 2591

MR. FUHS said [Backbone 2] feels very strongly that Alaskans are behind this project. One of the most critical things that can happen on these stranded gas negotiations is to stand up and negotiate for the interests of the people of Alaska. He said he thinks what ANGDA needs, more than anything, is a supply of gas for the project, and the commitment that the gas will be made available. Under the economic models being looked at, the oil companies would make \$720 million a year selling the gas; doing nothing more than turning a valve on the North Slope for 2.2 billion cubic feet of gas a day, he said. Mr. Fuhs said he thought it was a pretty good return for no additional investment on the part of [the oil companies]. He remarked, "We're really hopeful ... as you consider the Stranded Gas Act negotiations that you look at that gas supply."

MR. FUHS suggested that, as Mr. Heinze had said, maybe there's some combination that could allow this project to go forward now. Addressing a previously stated question from Representative Heinze, he said one advantage of the Alaska project is that it's already permitted and can go forward now. "Maybe in conjunction with one of the other people that have applied under the Stranded Gas Act," he suggested. Mr. Fuhs remarked, "Later on, when they sort through all the permitting

and Native land claims, and redo the treaty with Canada, and all the other things that it's going to take to consider a Canadian pipeline, if that comes around, then they can build that too, and that would be great." He said [Backbone 2] is not against a Canadian project, but [instead] is saying that there is no reason to delay one minute for moving ahead for the "all-Alaskan project" that the people of Alaska voted for.

Number 2653

REPRESENTATIVE CRAWFORD said [the state] had been ready to build a pipeline since it got done with the oil line and that he thought the people have spoken loudly. He remarked, "It's time for us to get moving." Representative Crawford said he would be open to any suggestions on what can be done by legislators to help move this forward as quickly as possible.

MR. FUHS mentioned the group's web site at "backbone2.org" and said the web site provides a wealth of background information, including: economic analyses, project descriptions, the RCA [Regulatory Commission of Alaska] decision on the pipeline tariffs, and the Federal Trade Commission (FTC) ruling on the BP merger. He told members that they would probably be receiving some [correspondence] because the web site makes it possible to e-mail each legislator by district, and he remarked, "People of Alaska are going to be able to communicate with you on this issue, through our web site."

REPRESENTATIVE HOLM asked Mr. Fuhs if he'd considered the fact that municipalities exact a great percentage of dispensable income by having the pipelines go through their property, and how it would adversely impact them to have the properties taken away without PILT [Payment in Lieu of Taxes] or some form of payment.

MR. FUHS remarked:

If you'll look at ... the 11 steps that are necessary in there, one of those is to negotiate municipal revenue sharing with those local communities and that would be Payment in Lieu of Taxes, that is one of the things that the authority is charged with doing. And I think ... they also should look at it as more general revenue sharing also, not just the communities that it goes through, because a lot of our communities are hurting. Some of them ... are going bankrupt right now because they don't have municipal revenue

sharing and this could be a source of that. The voters did vote on that, and it is required as part of the ... ANGDA process.

Number 2784

REPRESENTATIVE HOLM said he was curious about the idea of a public or private ownership or some combination thereof. He asked Mr. Fuhs what he envisioned at this time with MidAmerican "entering into the equation."

MR. FUHS said in order to enjoy the income tax exemption, ANGDA would have to own discreet portions of the pipeline. He remarked:

I think you could do a combination, maybe, with MidAmerican that'd come down a certain way, maybe, the Delta or something like that, and the authority take it the rest of the way to Valdez and own the liquefaction plant. If you did it in discreet pieces like that, I think you could still preserve the tax exemption, but they do have to own it, and it's not unusual for governments that their own resources to do this.

MR. FUHS said almost every government in the world that owns their resources has an ownership in the transportation and production. He noted that Nigeria has 70 percent ownership, and West Africa has 50 percent ownership. He suggested that if an African country can figure out how to do it, he didn't see why [Alaska] can't.

REPRESENTATIVE HEINZE remarked, "I've heard that ... if ANGDA is not funded, that basically, to fold our tents and go home." She asked, at that point, what would happen to the people's initiative.

MR. FUHS said he thought [the initiative] would just die, and the decision that the legislature is making is whether this is going to go forward and if the will of the people is going to be respected. He said the bill is basically like a mini-supplemental budget bill because if it goes through and it looks like it's moving both sides, it has an immediate effective date, that money will be available immediately, and that's the way that it needs to be. Mr. Fuhs remarked, "They need to get going on this analysis, they need the information, and so do you."

Number 2876

REPRESENTATIVE HEINZE asked Mr. Heinze if, in the case that a gas pipeline is built, could a "spur line" be built to provide gas to Cook Inlet. She asked if that is in ANGDA's authority.

MR. HEINZE stated that the ballot measure specifically speaks to a [gas pipeline] running from Prudhoe Bay to Valdez, and a spur line running from Glennallen into the Cook Inlet area. Within that is a lot of maneuver room because the first 530 miles from Prudhoe Bay to Delta is exactly the same route as the highway route, so there is a tremendous possibilities of combination there, Mr. Heinze explained. He said it is not really until Delta that the two projects kind of split off. Mr. Heinze remarked, "So there are all kinds of circumstances I can visualize where we may be able to either work with or pick up from or get to or all kinds of different relationships with these various sponsors." Within the statutory direction of the authority, he said he didn't see any problem at all in dealing with them. He said it's well within the context of trying to find a feasible project that will get the gas to market, can be undertaken, and more importantly, can be financed. Mr. Heinze said the part that's exciting to him is the interaction with not only the existing proposal that's been on the table for a long time, but with a new set of people proposing a project. He said the dynamics that brings to it are very significant.

**TAPE 04-3, SIDE B**

[Not entirely on tape, but taken from the Gavel to Gavel recording on the Internet, was Representative Heinze's remark that there are three Arco past presidents: Kevin Meyers of ConocoPhillips, Ken Thompson of Pacific Star Energy, and Harold [Heinze].]

REPRESENTATIVE HEINZE, noting that she had participated in hearings on the electrical grid, said the "projections are six to seven years and we're out of gas and our entire grid is in jeopardy." She said she is trying to figure out a way to get gas to Cook Inlet.

Number 2950

MR. HEINZE replied that he thought the governor, in talking to the legislature, highlighted the importance of gas in the Cook Inlet area. He suggested that there is a very broad recognition within the administration and within [ANGDA's] authority about

the fact that there is a significant price and supply issue related to gas in Cook Inlet. He said the belief is that the spur line concept included in the ballot measure that was passed offers a tremendous opportunity for at least a generation's worth of gas at a reasonable price "into the area." Mr. Heinze remarked, "We think that's a tremendous benefit of a project, and I think as our benefit analysis proceeds that will show up as one of the larger things that we are actually impacting by our project."

CHAIR KOHRING remarked, "If we don't build a spur line, we can develop some coal bed methane out there."

Number 2896

ROBERT VALDATTA, Member, City Council, City of Seward, mentioned a presentation made in January. He said the City of Seward has passed a resolution for a total all-Alaskan gas pipeline or "if it goes the other way, we're concerned that we're not going to get equal opportunity that these other two companies are going to get the lion share of the money; we're not." He said it was stated during the presentation that Seward could be a support facility for training and the shipping of materials. Mr. Valdatta added that maybe Seward could be a pump station to the barges that service the coastal villages. He remarked, "We appreciate your support on this, and we're wide open ... for all the assistance we can get."

REPRESENTATIVE HEINZE asked if Seward was one of the cities that voted the "no-competence in the legislature."

MR. VALDATTA said no.

Number 2823

WILLARD DUNHAM, Member, City Council, City of Seward, testified. He said as Mr. Valdatta mentioned, [ANGDA] gets equal billing with the other two projects, and it seems like in the publications of that and the stories that have been covered, it hasn't been that way. Mr. Dunham said there was enough concern to pass a resolution in support of it, and one reason for the early support of the [gas pipeline] is that it looked like it was the only plan that gave any consideration to the coastal cities. Mr. Dunham remarked:

We feel this is very important, ... even though the secondary of coming up with a pipeline, the highway

line as a feeder line down to Southcentral, it still did not include in its project the idea of service to coastal cities for liquefied gas. So I would urge you, in your consideration, ... fund this. One, I think it's because the people have voted for it.

MR. DUNHAM said the support is still there, and that the point Representative Heinze brought up about the power and the energy sources for Southcentral is very true. He said he has been on one of the energy committees and has studied the energy and supply in Southcentral. He remarked, "We're going to have a serious problem if we don't get stabilization of the gas, we're going to see costs go out of sight on us much like California is seeing now." He urged funding for ANGDA, so it would have the opportunity to continue.

CHAIR KOHRING asked Mr. Valdatta to provide his office with copies of the resolutions that the City of Seward had passed.

Number 2690

CHAIR KOHRING, upon determining no one else wished to testify, closed public testimony.

CHAIR KOHRING said with regard to the government's involvement in infrastructure development of this nature, he has a philosophical disagreement with this. He said Harold Heinze, his staff, and the board that was appointed by the governor are the consummate professionals, and he has a lot of respect for them. Chair Kohring said in his mind it should be strictly private sector. He noted he has concerns about appropriating money to an authority that is pursuing a project that should be done privately, and he said the committee has disagreements on that. Chair Kohring said he appreciates the work of the authority, which he noted has done an outstanding job. He remarked, "If they can make it happen, they would be the ones to do that." He noted that the committee did not receive any testimony from the private sector, and he said he wondered what the opinion was.

Number 2593

REPRESENTATIVE McGUIRE commented that she thought Mr. Heinze, the people involved in the initiative, and Backbone 2 have done a great job. She said she didn't see it as a direct threat to private industry, instead she sees it as Alaskans caring about getting a gas pipeline moving and wanting to see it go forward

as quickly as possible. Representative McGuire said private industry may not want to move as quickly as [the state] does, which is fine, and maybe the [private sector] chooses to stay out of this project because it's not economic for them now or maybe "they chose to jump on board."

REPRESENTATIVE MCGUIRE said she what she thought was phenomenal about this process, the bill, and what has happened with the initiative, is how much Alaskans have come to learn about this. Representative McGuire said when she came to serve in the legislature, one of her first standing committees was the House Resources Standing Committee, and she was overwhelmed with how little she knew about resource development in Alaska. She said "yet we all know" it's one of the most important things about [Alaska], because "we" are so fortunate to have such an abundance of natural resources. She said she thought it was great because it is showing the process of how a project is laid out, the types of things that need to be considered, and the benefits that come back to Alaskans.

REPRESENTATIVE MCGUIRE said Representative Heinze made a great point that the Cook Inlet area is running out of gas. She remarked, "People in rural areas would say well we never had it, so boy are you lucky you're running out; we never had it; we have diesel." She said if private industry wants to "come on board" later, Mr. Heinze has made it clear and has been very open and receptive to that possibility.

REPRESENTATIVE MCGUIRE said when that time comes, [the state] will know a little better about what kind of a deal it wants. "That is our role; the shareholders for us are Alaskans," she remarked. She said she didn't see it as a threat, and noted that [members] have different opinions on it. She said she is proud of it and is delighted it is going forward. She said she looks forward to hearing another update from Mr. Heinze.

Number 2470

REPRESENTATIVE KERTTULA moved to report SSHB 296 out of committee with individual recommendations. There being no objection, SSHB 296 was reported from the House Special Committee on Oil and Gas.

CHAIR KOHRING stated that because SSHB 296 is an appropriations bill there is no accompanying fiscal note.

**ADJOURNMENT**

The House Special Committee on Oil and Gas meeting was recessed at 2:10 p.m. [The meeting was reconvened February 19, 2004.]