

MINUTES
SENATE FINANCE COMMITTEE
April 03, 2003
9:00 AM

TAPES

SFC-03 # 39, Side A
SFC 03 # 39, Side B

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 9:00 AM.

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice Chair
Senator Robin Taylor
Senator Ben Stevens
Senator Donny Olson

Also Attending: SENATOR SCOTT OGAN; REPRESENTATIVE HUGH FATE;
REPRESENTATIVE VIC KOHRING

Attending via Teleconference: from offnet sites: ROGER MARKS,
Petroleum Economist, Division of Tax, Department of Revenue; MARK
MYERS, Director, Division of Oil and Gas, Department of Natural
Resources; From Anchorage: WENDY KING, Representative,
ConocoPhillips

SUMMARY INFORMATION

HB 16-STRANDED GAS DEVELOPMENT ACT AMENDMENTS

The Committee heard testimony from members of the House of Representatives, the Department of Natural Resources, the Department of Revenue, and heard public testimony. One amendment failed to be adopted, and the bill reported from Committee.

SB 86-INTEREST ON DELINQUENT TAXES

This bill was scheduled but not heard.

#hb16

CS FOR HOUSE BILL NO. 16(FIN) am

"An Act amending, for purposes of the Alaska Stranded Gas Development Act, the standards applicable to determining whether a proposed new investment constitutes a qualified project, the standards used to determine whether a person or group qualifies as a project sponsor or project sponsor group, and 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, and modifying the conditions bearing on the use of independent contractors to evaluate applications or to develop contract terms; providing statements of intent for the Act relating to use of project labor agreements and to reopening of contracts; and providing for an effective date."

SENATE CS FOR CS FOR HOUSE BILL NO. 16(RES)

"An Act amending, for purposes of the Alaska Stranded Gas Development Act, the standards applicable to determining whether a proposed new investment constitutes a qualified project, the standards used to determine whether a person or group qualifies as a project sponsor or project sponsor group, and 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, and modifying the conditions bearing on the use of independent contractors to evaluate applications or to develop contract terms; providing statements of intent for the Act relating to use of project labor agreements and to reopening of contracts; and providing for an effective date."

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

Co-Chair Wilken informed the Committee that this bill "clarifies the qualification and application procedures" involving natural gas projects for the Commissioners of the Department of Labor and Workforce Development, the Department of Revenue, and the Department of Natural Resources. He explained that the "sole difference" between the two bill versions, SCS for CS for HB #16(RES) and CS HB #16(FIN)am, is that SCS for CS for HB #16 (RES) inserts the words "North Slope" and "a natural gas" into the language of Section 2, Subsection 43.82.100 (1)(A) as follows.

(A) the transportation of North Slope natural gas by a natural gas pipeline to one or more markets, together with any

associated processing or treatment;

New Text Underlined

Co-chair Wilken opined that the addition of the Senate Resource Committee language "restricts the bill and the intent of the language," and as such, he continued, has the potential to restrict an upcoming project in the Fairbanks district. He urged the Committee to adopt the CS HB #16(FIN)am version of the bill.

Senator Bunde moved to adopt CS HB #16(FIN)am as the working document.

There being no objection, CS HB #16(FIN)am was adopted as the working document.

REPRESENTATIVE HUGH FATE, the bill's sponsor, explained that CS HB #16(FIN)am would: eliminate language referring to the North Slope; extend the application deadline to March 2005; and reduce the requirements regarding who might qualify as a project sponsor from 33 percent of net worth of the project to ten percent which would encourage exploration and investments in natural gas projects. He continued that the bill would additionally reduce the project sponsor's required line of credit from 25 percent to 15 percent of the project, and specify that the reimbursable amount of \$1.5 billion per contract to the State. He stressed that this bill would provide a boarder approach to the development of stranded gas projects.

SENATOR SCOTT OGAN noted that the sponsor was included in the Senate Resources Committee discussions and had voiced acceptance of the changes to the bill.

Representative Fate explained that he "concurred with the changes that were made," as, he continued, a legal opinion from the Department of Law specified that those changes would not prevent "other gas discoveries" from having access to the use of the pipeline.

ROGER MARKS, Petroleum Economist, Division of Tax, Department of Revenue testified via teleconference from an offnet site and read his testimony as follows.

Good morning, co-chairs Wilken and Green, and members of the committee. My name is Roger Marks. I am a petroleum economist with the Tax Division of the Department of Revenue. I worked on the original Stranded Gas Act in 1998 and am familiar with its history, intent, and mechanics. I would like to provide a

very brief overview of the Act at AS 43.82. A more detailed synopsis is with the fiscal note.

Co-Chair Wilken interjected that Mr. Marks' written testimony, titled "Overview of HB 16" dated April 3, 2003 [copy on file] has been provided to Committee members.

Mr. Marks continued reading his testimony as follows.

The Act originated in HB 250 in 1997 which established a North Slope Gas Commercialization team in the Administration to research and recommend changes to state law to encourage commercialization of North Slope gas. The team concluded that the project faced considerable risk, namely gas price risk and cost overrun risk, and that the state's fiscal system actually exacerbated those risks. Two of the risks of particular concern were fiscal uncertainty and the state's regressive tax system.

(A brief comment on the price risk: The cost of the project is very large: \$20 billion. That is a lot of money to any corporation, even ones the size of Exxon, BP, or ConocoPhillips. If this project is built and something goes wrong, such as low prices, the sponsors face very large losses. And even if these are relatively low probability events, the project may not be built is a company cannot tolerate a loss that size. That is why the risk reduction mechanism proposed in Congress, which is currently in place for non-conventional gas in the lower 48, may be a very necessary linchpin in making this project a reality.)

By fiscal uncertainty we mean the threat of changes in fiscal provisions after a project is built, that may change the project's viability after it is too late to do anything about it. A project may be feasible under one tax system. If it is built under the assumption that the tax system in place will stay in place, but the tax system changes, the changes could cause heavy financial losses.

Second, there are two significant elements of the state's fiscal system that make it regressive. By regressive we mean that the state's take is a high percentage of income at low prices, and a low percentage at high prices. First, the property tax is based on cost. The higher the cost the higher the tax. This is a double whammy to an investor who incurs a cost overrun. Moreover, the property tax is payable when construction begins, years before revenues start accruing. On a time value of money basis this diminished the rate of

return, and increases the risk of not recovering the investment.

The second regressive elements are the severance tax and royalty. They are based on the value at the point where the gas comes out of the ground, and ignore upstream costs such as capital and operating costs. Thus when costs are high and prices are low, the state's take is a high percentage of low income. Again, this intensifies the danger of low prices.

I might add that a regressive system also limits the state's take at high prices. Fixing that could be very important to the state for securing more revenue when prices are high, without threatening the viability of the project.

The Stranded Gas Act was the result of trying to fix these shortcomings. The law provided a mechanism for converting the state's fiscal system from a statutory basis to a contractual basis. This would provide for greater fiscal certainty. The fiscal system would be negotiated between the state and the project sponsors, and approved by the legislature, after a public review period. Payments to the state would be made in-lieu of taxes. And per the Act the contract terms would provide for a more progressive (less regressive) system.

Most of the provisions subject to negotiation are the tax provisions. Given that the royalty represents the state's ownership share, there was not interest in making the royalty rate subject to change. The only royalty provisions subject to negotiation would be the gas valuation method, and the timing of royalty in-kind and in-value notices.

The Commissioner of Revenue would be the primary agent for negotiating and implementing the contract. However, the Commissioner of Natural Resources is also responsible for reviewing the project plan for acceptability, and for negotiating any changes in those royalty issues.

There was concern by municipalities that a contract could compromise their property tax revenues. Accordingly, the Act created a municipal advisory group to participate in developing contract terms, and the Act requires that a fair and reasonable share of the payments due under the contract be paid to affected municipalities with due regard to the size of the tax base that may be exempted, and the economic and social burdens imposed by construction and operation.

The Act also has provisions for sponsors to help make gas

available to communities, to promote local hire, to deal with confidential information provided by the sponsors, and to reimburse the state for contractors it may use to assist in the negotiation process.

Finally, there were some questions raised as to whether this would surrender or contract away the power to tax, which is forbidden by our constitution. It was the administration's judgement that this would not preclude future legislatures from imposing other taxes, but this contract would represent a solemn pledge, a moral commitment by the state, and a message to future legislatures that once it agrees to the terms it will not change them.

Senator Ogan asked the testifier whether the communities of Anchorage, Mat-Su and Kenai participated in the discussions regarding this bill as, he continued, this legislation provides the Department of Revenue with the ability to "basically" remove the communities' "taxing authority." He reminded the Committee that the original version of this legislation "did not affect those communities at all."

Mr. Marks responded that, while "the North Slope Borough, Fairbanks and Valdez" were involved in the discussions, the communities of Anchorage, Mat-Su and Kenai were not.

Senator Ogan avowed that the amended version of this bill affects "the powers" of these communities without their input. He continued that "not developing a dialogue" with the affected communities is "bad public policy," as this bill would apply to "the transportation of natural gas "in any pipeline anywhere in the State."

Senator Taylor questioned the involvement of the City of Valdez in the discussion, as the proposed pipeline does not affect that community.

Mr. Marks responded that the original act, adopted in 1998, concentrated on the transportation of liquefied natural gas (LNG), and he stated that, at the time, Valdez "was an integral part" of the project. He agreed that a highway pipeline project would reduce the role of Valdez in the proceedings.

Senator Taylor asserted that because the original Act concentrated on LNG, an LNG market study had been conducted.

Mr. Marks replied that a sponsor group consisting of ARCO, Foothills Pipeline Company, Phillips Petroleum, Yukon Pacific, and

British Petroleum conducted a LNG feasibility study in 1998. He stated that the viability study cost approximately \$2 million.

MARK MYERS, Director, Division of Oil and Gas, Department of Natural Resources testified via teleconference from an offnet site. He expressed that the gas pipeline project is important to the State because it would provide for "the development of Alaska's incredible gas resources for the next fifty years plus." He stated that, "the Stranded Gas Act sets the stage for broad-based technical negotiations between project sponsors and the Administration." He stressed that the Administration strongly supports the Act and recognizes it "as a vehicle to accelerate the construction of a North Slope natural gas pipeline." He voiced that these broad-based negotiations would enable the various expertises within the Departments and the industry to work together. He stated that the debate regarding the committee substitutes pertains to whether independent natural gas basin projects outside of the Fairbanks and North Slope regions would be allowed access to the gas pipeline.

Senator Taylor asked the average percentage of "in place" gas that is typically owned by the entities who own and operate the existing major pipelines in the United States; specifically whether there is a ten percent or higher ownership requirement that must be in place before an entity is allowed to own and operate a natural gas pipeline.

Mr. Myers responded that, "there is no such rule." He continued that the most common scenario is that the pipeline is "separately" owned from the producers "so that non-affiliated pipelines are the norm." However, he noted that there are exceptions. He summarized that "owning the gas is not a prerequisite to owning the pipeline."

Senator Taylor asked, therefore, why a ten percent interest in a stranded gas project is identified as a requirement in the bill. He ventured that perhaps this is an exclusivity qualifier "to make certain that there is only two or three total bidders" who could apply.

Mr. Myers clarified that, rather than the language requiring a ten percent ownership in the gas, the language specifies that the applicant must have "an equity of at least ten percent of the net worth of the project." He acknowledged that this would be a limiting factor, as it would require a significant amount of money.

Senator Taylor referred to the qualifying language in Section 3, of the bill that reads as follows.

Sec. 3. AS43.82.110 is amended to read:

Sec.43.82.110. Qualified sponsor or qualified sponsor group. The commissioner may determine that a person or group is a qualified sponsor or qualified sponsor group if the person or a member of the group

(1) intends to own an equity interest in a qualified project, intends to commit gas that it owns to a qualified project, or holds the permits that the department determines are essential to construct and operate a qualified project; and

(2) meets one or more of the following criteria:

(A) owns a working interest in at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(B) has the right to purchase at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(C) has the right to acquire, control, or market at least 10 percent of the stranded gas proposed to be developed by a qualified project;

(D) has a net worth equal to at least 10 [33] percent of the estimated cost of constructing a qualified project;

(E) has an unused line of credit equal to at least 15 [25] percent of the estimated cost of constructing a qualified project.

New Text underlined [Deleted Text Bracketed]

Senator Taylor agreed that while the language does not require a company to own ten percent of the stranded gas, the requirement for an applicant to have a net worth exceeding \$3 billion, factored on a percent of the total projected cost of the project, is restrictive. He noted that the committee substitutes propose to reduce the percentage levels of the qualifiers; however, he asked whether the level of these five qualifying standards is a universal norm.

Mr. Myers responded that these qualifier standards "are more of a commercial agreement" from a consortium of major producers, rather than a government recommendation. He continued that because the scope and cost of a qualifying project is unknown, it is difficult to determine total project costs. He mentioned that, because the exact route of the pipeline has not been determined, it is difficult to compile the financial data. Nonetheless, he estimated the pipeline costs to be in "the billions of dollars," and that few companies would qualify.

Senator Taylor asked the number of companies that meet the five criteria outlined in the bill.

Mr. Myers commented that "the upstream producers" would benefit "in terms of re-negotiating their royalties or tax terms involving production." He continued that "there is not a direct affect on the pipeline but there are issues involving pipeline tariffs or stuff that could be negotiated under this that could affect the pipeline portion of the project." He stated that "this very broad based bill would benefit the lessees" consisting of the large producers on the North Slope such as Exxon, ConocoPhillips, British Petroleum and Chevron, who have gas that would go into the line, as well as a few large exploratory groups. He noted that a potential consortium of Native groups as well as a multitude of pipeline companies could qualify. He stated that while "this is a fairly large group, it certainly is a limited group when you look at Alaskan corporations."

Senator Taylor declared that the Legislature "struggles" with determining an accurate cost of the pipeline project, and he asked whether the industry has provided specific proprietary information rather than general information to assist in the cost projection endeavor. He voiced displeasure at not being able to determine a cost range.

Mr. Myers verified that the Department of Natural Resources does not have sufficient "detailed financial data to support" an accurate figure nor has the Department received any financial data to further this effort. He stated that until a project is identified, it would continue to be difficult to determine a cost. He mentioned that producers have spent in excess of \$100 billion dollars in analyzing the project and determining costs; however, the State does not have access to that information. He asserted that the State must develop a much more detailed cost analysis.

Senator Taylor declared that neither the Legislature nor the Departments have been provided any industry financial information.

Mr. Myers stated that this is "absolutely correct."

WENDY KING, Director of External Strategies, ConocoPhillips Alaska North Slope Development Team, testified via teleconference from Anchorage to voice support for this bill, as it would modify and reauthorize the Stranded Gas Act to include a gas pipeline project. She communicated that passage of this bill, passage of federal legislation intended to streamline the permitting process, and federal fiscal legislation ensuring against the risk of extreme price volatility are parts of ConocoPhillips "three-pronged

strategy to make a gas pipeline through Alaska and Canada a reality." She urged the Committee to pass the bill.

REPRESENTATIVE VIC KORING spoke in support of the legislation, as he stated, it would allow the stranded gas industry in the State to develop. He furthered that construction of a natural gas pipeline would produce jobs, boost the economy, and increase revenues for the State. He stated that this legislation would work in tandem with federal legislation currently being addressed in Congress. He "respectfully requested" the Committee to adopt "a clean simple bill...to expedite the process."

Senator Taylor asked whether language on page two of the bill was changed to allow "for more than LNG" to be transported in the pipeline.

Representative Fate answered that the changes would allow for other gas related products from the field to be included.

Senator Taylor stated that he is unaware of a variety of gas products. He asked the intent of the qualifying language on page 2, line 19 that reads as follows.

Sec. 2 (1) (B) [IS A PROJECT FOR] the export of liquefied natural gas from the state to one or more other states or countries; or

New Text Underlined [DELETED TEXT BRACKETED]

Representative Fate responded that this language would provide for the use of gas within the State or provide for a gas infrastructure within the State. He clarified that the original bill did not authorize these uses, and he continued that the language is included for clarification.

Senator Ogan shared that he has "struggled" with the gas-to-liquid (GTL) issue. He asserted that the language included in Section 2 (1)(C) located on page 2, line 19 is very broad.

Sec 2 (1)(C) and other technology that commercializes the shipment of natural gas within the state or from the state to one or more other stated or countries;

New Text Underlined [DELETED TEXT BRACKETED]

Senator Ogan expressed that were this language not included, it would inhibit the Commissioner of the Department of Revenue's ability to negotiate for a possible petrol-chemical industry;

however, he continued, "this bill is so broad that you could drive a truck through it." He stated that the language would allow for any technology, anywhere in the State "without consultation with any communities" being affected. He read from Alaskan pioneer and State Constitution consultant, Bob Bartlett's writings which warned of two dangers to the State's resources: the first being the exploitation of the State's resources "under the thin disguise of exploration" and the second being outside interests' attempts to inhibit development of Alaska's lands to protect their own interests. He noted that the State has discussed developing its natural gas resources for more than 27 years, and he urged the Committee to narrow the language to specify that the State would "develop a natural gas or LTG pipeline either to Valdez or to the Lower 48." He suspected that there might be ulterior motives to the companies' strategy; therefore, he opined that the project should be more clearly identified. He warned that this bill would allow for entities to include projects "that are not yet on the radar screen." He declared that he could not support the language as presented.

Co-Chair Green asked for an example of a project that would be permitted by the language in the working document, but prohibited by the language of the Senate Resources committee substitute.

Senator Ogan responded that the Senate Resources committee substitute would prohibit a gas pipeline from being built unless it was attached to the North Slope Natural Gas Pipeline. He reiterated his concern that Mat-Su, Anchorage, and Kenai were not involved in discussions regarding the changes in the bill.

Co-Chair Green asked the definition of stranded gas.

Representative Fate explained that, "stranded gas is that gas that is either a byproduct or is in itself a primary well that has been put down and the utilization of that product which is gas or a byproduct of oil has not been used in a commercial market." He expressed that North Slope gas is recognized as stranded gas because it has never reached a commercial market although, he explained, the industry uses the gas in its North Slope oil well operations.

SFC 03 # 39, Side B 09:48 AM

Co-Chair Green asked the advantage or disadvantage that an area would experience by being allowed to transport stranded gas.

Senator Ogan clarified that being authorized to transport gas "would be a good thing for a borough;" however, he argued, boroughs should be provided the opportunity to be included in the discussions.

Senator Taylor asked how, for instance, a new gas field in the Mat-Su valley and a group seeking to transport that gas would qualify under this bill's language, as he contended, the bill's "limiting factors" appear to restrict rather than expand the options. He voiced that this bill focuses only on areas that are in the vicinity of the proposed pipeline routes rather than permitting "the whole State" to develop fields and transport gas. He asked whether "the qualifiers preclude" the development of small new fields, small developers and small pipelines.

Mr. Myers responded that while the cost of developing some of the projects is in the millions or billions of dollars; the bill specifies that qualifying groups must have a net worth equal to "at least ten percent of the qualified project which is indeterminate until you know what the project is." He defined stranded gas as gas that is not being marketed due to prevailing economic conditions.

Senator Taylor acknowledged the information. He asked for confirmation that the ability to produce 500 billion cubic feet of stranded gas over a twenty-year period is required to be a qualified project.

Mr. Myers verified that the required amount of gas is 500 billion cubic feet. He remarked that this is "not a huge number, but it is a substantial number." He stated that there are multiple fields of this size, and he continued, there is the possibility that potentially larger fields exist.

Senator Taylor asked the reason the State would support this limiting factor.

Mr. Myers responded that the language is a "screening criteria," as he surmised, it might be easier to negotiate with a smaller number of entities.

Senator Bunde asked whether this legislation correlates to any Congressional action regarding the gas pipeline.

Representative Fate noted that at a recent National Energy Council meeting, Alaskan Legislators entertained many questions regarding the status of the State's Stranded Gas Act. He continued that action on this legislation "would give credence to the State of Alaska's effort to get the negotiations going." He declared that

action at the State and federal level is required to further gas pipeline negotiations.

Senator Bunde asked whether the likelihood that these negotiations would occur is increasing.

Representative Fate responded yes, as he understands that the US House of Representatives is currently addressing both the gas pipeline issue and the Arctic National Wildlife Refuge (ANWR). He asserted that State action on this bill and action at the Congressional level would assist in furthering pipeline negotiations.

Senator Taylor opined that deletion of the words "natural gas" on page 2, line 16 of the bill would expand the utilization parameters of the Trans-Alaska Pipeline System (TAPS). He concluded that were the existing crude oil pipeline alternately used to transport GTL, a separate pipeline would not be required.

Representative Fate conveyed that a separate gas pipeline has not been constructed partially because private industry research has not been able to demonstrate that commercial marketing of GTL in today's economic market would be financially feasible. He expressed that were the commercial market for natural gas more competitive, the transportation of GTL or any other product in TAPS would generate "quicker money and even enhanced revenue" for the State because the resource and the pipeline are already available. He stated that the commercialization of natural gas would additionally allow for a value-added in-State infrastructure to be developed. He asserted that the economic market is the determining factor. He considered the Stranded Gas Act 2005 reauthorization requirement to be "an additional safeguard."

Senator Taylor specified, therefore, that TAPS could be used to transport GTL.

Representative Fate responded, "the answer is yes."

Senator Bunde asked whether the \$871,500 expenditure, reflected in the Department of Revenue fiscal note #4, would be supported by statutory designated program receipts rather than by Constitutional Budget Reserve (CBR) funding.

Representative Fate answered in the affirmative. He clarified that monies generated from the "\$1.5 million limit" per negotiated project fee, as specified in the bill, would support this expenditure.

Senator Taylor reviewed the political arguments concerning the development of a gas pipeline, and he observed that there has been "a significant policy shift" regarding the historical Legislative position that a gas pipeline should be separate from TAPS. He argued that this legislation would provide an economic "blank check" to an industry that does not share pertinent information with the State concerning the costs of the project nor does this legislation account for the cost to the citizens of the State in terms of such things as tax incentives that the State might be "giving up." Additionally, he countered, the same companies who do not share their cost analysis with the State are the same ones that supply "the economic viability information" that the State utilizes to assess the project. He argued that if the intent of the legislation is to expand the options, it should be "opened wide up" rather than limiting the opportunity to a select group of multinational companies that would receive "significant economic benefits."

Senator Bunde understood that although this bill would allow companies to negotiate with the Administration, the Legislature would determine whether or not to approve the project.

Representative Fate verified that even though the Commissioner must approve a qualified project and a qualified sponsor, the Legislature must grant final approval before contract negotiations are finalized.

Senator Taylor agreed. He reminded the Committee that were similar qualifiers in place when the Territory of Alaska decided "to permit and allow" the Alaska Railroad to be constructed, it might never have been finished, as he continued, before the project was finished, the original builder went bankrupt and the federal government completed the project. He declared that were qualifiers in place then, the State would not have a railroad today. He opined that rather than the State determining who is qualified, a company should determine whether to undertake a project.

Amendment #1: This amendment deletes the qualifying language on page 2, from line 29 through page 3, line 13 so that the amended language reads as follows.

Sec. 3. AS 43.82.110 is amended to read:

Sec. 43.82.110. Qualified sponsor or qualified sponsor group. The commissioner may determine that a person or group is a qualified sponsor.

Senator Taylor moved for adoption of conceptual Amendment #1.

Co-Chair Green objected.

Representative Fate voiced that removing these qualifying guidelines "would be a delaying mechanism" as it would result in an increase in the number of applications, and thereby, increase the Commissioner's workload. He commented that, while he would not object to expanding the exploration guidelines, he voiced concern regarding the "unintended consequences of opening it up too wide."

Co-Chair Wilken expressed that this language is intended "to filter out companies or entities" who would not "have the ability to develop a field."

Senator Taylor argued in support of the amendment by voicing that, Anadarko Petroleum Corporation, which he attested is considered by its peers "to be one of the largest independents in the world," would be required to purchase the State's "in-kind royalty gas at a premium price solely for the purpose of being allowed to" meet the qualifying criteria in this legislation. However, he continued, the sale of the in-kind royalty gas has, of yet, not been approved by the State, and he continued, that were it not approved, one of the largest companies in the United States would have to qualify through another qualifier. He stated that the removal of these qualifiers would permit the Commissioner to decide which companies would qualify.

Senator Ogan commented that several entities, including Foothills Pipeline Company, have removed themselves from the joint gas pipeline sponsor group "perhaps" due to, he noted, the fact that "the guys with the gas make the rule." He informed the Committee that in other parts of the country, it is gas pipeline companies rather than producers who generally transport the gas. While he professed no position on the amendment, he voiced that this amendment would remove "the ownership and possibly opens up the ability of" other entities to build a pipeline to transport the gas.

Co-Chair Green asked whether Section 3(2)(C) addresses Senator Taylor's concern, as it specifies that an entity "has the right to acquire" rather than "will acquire."

(C) has the right to acquire, control, or market at least 10 percent of the stranded gas proposed to be developed by a qualified project.

Senator Taylor responded that while this section specifies that an entity would have the right to apply, it does not give the right to actually acquire the gas after a contract is signed. He asked why

the State "should even care" about these qualifiers if someone wants to build a pipeline. He stated that rather than benefit the people of Alaska, the qualifiers "significantly benefit" those entities that wish "to exclude who gets to play in the poker game."

Senator Olson deemed this language to be necessary to protect the State from being responsible for cleaning up a project, were an entity to go bankrupt. He asked whether the industry could testify as to their position on the qualifiers.

Co-chair Wilken noted that no representatives from the industry were present to testify.

Senator B. Stevens observed that the lack of any discussion regarding the qualifiers from the industry appears to signify acceptance of the qualifiers. Furthermore, he noted, the industry was involved in, and agreed with, the qualifying percentage reductions as specified in the bill. He asserted that requiring a demonstration of "financial capacity" is routine and important. He announced his opposition to the amendment.

Senator Taylor insisted that "significant discussion" with the industry did occur during deliberations regarding the percentage reduction changes in the House of Representatives, and that initially the sponsor intended lower percentages to be included, but they "got negotiated back up." He voiced that this amendment would benefit the intent of the bill. He agreed that financial responsibility is important, however, he stated that such things as the environmental clean-up bond requirements imposed by the State are so restrictive that it limits the number of entities who are willing "to come up here and punch a hole in the ground." He declared that he has yet to be convinced that these qualifiers would benefit the State. He avowed, "it is a good thing the State does not" impose these types of qualifiers on other industries in the State.

A roll call was taken on the motion.

IN FAVOR: Senator Taylor

OPPOSED: Senator Olson, Senator Bunde, Senator B. Stevens, Co-chair Green, Co-chair Wilken

ABSENT: Senator Hoffman

The motion FAILED (5-1-1).

Amendment #1 FAILED to be adopted.

Senator Taylor voiced that, while he would not be presenting another conceptual amendment, he had considered one that "would have removed the 500 billion cubic feet requirement over a twenty-year period" to signify that the Legislature would encourage the development of smaller gas projects. However, he expressed, the Legislature is apparently "not in the business of encouraging the development of anything smaller than a \$20 billion pipeline."

Senator Bunde moved to report CS for HB #16(FIN)am from Committee with personal recommendations and accompanying fiscal notes.

Senator Taylor objected due to the restrictions that the bill places on applicants.

A roll call was taken on the motion.

IN FAVOR: Senator Olson, Senator Bunde, Senator B. Stevens, Co-chair Green, Co-chair Wilken

OPPOSED: Senator Taylor

ABSENT: Senator Hoffman

The motion PASSED (5-1-1)

CS HB 16(FIN)am REPORTED from Committee with zero fiscal note #1, from the Department of Community and Economic Development and fiscal note #4 in the amount of \$871,500 from the Department of Revenue.

#

ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 10:27 AM