

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

January 26, 2004

3:35 p.m.

TAPE(S) 04-3

MEMBERS PRESENT

Senator Scott Ogan, Chair
Senator Thomas Wagoner, Vice Chair
Senator Fred Dyson
Senator Ralph Seekins
Senator Ben Stevens
Senator Kim Elton
Senator Georgianna Lincoln

MEMBERS ABSENT

Senator Fred Dyson

COMMITTEE CALENDAR

SENATE BILL NO. 271

"An Act amending the purpose of the Alaska Natural Gas Development Authority to include planning, developing, constructing, managing, or operating an economically viable gas pipeline project from the North Slope of Alaska by a route that parallels the Trans Alaska Pipeline System or the Alaska Highway; authorizing evaluation of opportunities for private sector involvement in the project; amending requirements related to the Authority's preparation of a development plan; and providing for an effective date."

HEARD AND HELD

PREVIOUS ACTION

BILL: SB 271

SHORT TITLE: NATURAL GAS DEVEL AUTHORITY PROJECTS

SENATOR(s): OGAN

01/21/04	(S)	READ THE FIRST TIME - REFERRALS
01/21/04	(S)	RES, FIN
01/26/04	(S)	RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

Mr. Harold Heinze, CEO
Alaska Natural Gas Development Authority (ANGDA)
Department of Revenue (DOR)
PO Box 110400
Juneau, AK 99811-0400
POSITION STATEMENT: Supports SB 271.

Mr. Steve Porter, Deputy Commissioner
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400
POSITION STATEMENT: Commented on SB 271.

Mr. Leonard Herzog, Assistant Attorney General
Oil, Gas & Mining Section
Department of Law (DOL)
1031 W. 4th Ave. Ste 200
Anchorage, AK 99501-1994
POSITION STATEMENT: Answered questions pertaining to SB 271.

Mr. Nels Anderson, Jr.
Dillingham, AK
POSITION STATEMENT: Supports SB 241 and SB 271.

ACTION NARRATIVE

TAPE 04-3, SIDE A

CHAIR SCOTT OGAN called the Senate Resources Standing Committee meeting to order at 3:35 p.m. Senators Wagoner, Seekins, Ben Stevens, Elton and Chair Ogan were present. Senator Lincoln arrived while the meeting was in progress. He announced that the committee would take up SB 271.

^#SB271

SB 271-NATURAL GAS DEVEL AUTHORITY PROJECTS

CHAIR SCOTT OGAN, sponsor of SB 271, informed members that SB 271 expands the scope of the Alaska Natural Gas Development Authority [ANGDA, the "Authority"]. Currently the Authority has the scope to build an LNG line to Valdez, but if the scope were expanded to build to the border, the tax-free status of a state-owned pipeline could be taken advantage of. As chairman of the Energy Council, he reported that he attended meetings over the summer and spoke with people interested in hooking up to

Alaska's line, possibly at the Canadian border. TransCanada Pipeline indicated a hook up of about 2 billion cubic feet (bcf) per day in their current capacity. SB 271 also asks ANGDA to evaluate private sector involvement in the planning, development, construction, and management of the operation of the gas transmission pipeline project. He said that philosophically he feels better about the private sector having more of a risk-taking role in this project, given the history of state-owned projects in the past; the more private sector money invested, the better.

CHAIR OGAN told the committee that a cursory review with legislative attorney Jack Chenoweth indicated that state ownership with private sector investment wouldn't hurt the tax re-status. He said he doesn't feel SB 271 is mutually exclusive to one particular group; producers can take advantage of this and use the tax re-status.

CHAIR OGAN noted that Senator Lincoln had joined the meeting at 3:40 p.m.

SENATOR KIM ELTON asked if, in addition to the request for \$2.15 million, the Authority would require more money.

CHAIR OGAN responded that more money would probably be necessary to permit and plan a new pipeline route. Although the producers have done a fair amount of engineering work on the Alaskan Highway route, he doesn't suspect that much of that work will be shared. He stated that SB 271 does not currently have a fiscal note.

SENATOR ELTON asked if, rather than changing the provisions of SB 241 [Approp: Natural Gas Development Authority], a fiscal note was anticipated [for SB 271].

CHAIR OGAN confirmed this to be so and said he didn't think it was appropriate to tack money onto SB 241, a bill that may or may not pass.

MR. HAROLD HEINZE, CEO, ANGDA, testified that the proposed changes would expand the scope of ANDGA's feasibility study to include the highway project in addition to the LNG project to Valdez. The bill provides for an additional six months to address the project's feasibility and also evaluates the private sector's involvement in the project. He believes the Authority can be of value to the state by contributing to the success of any private sector project that's undertaken on behalf of North

Slope gas. ANGDA also stands ready to work with any group on the LNG project. Both opportunities are very important, he said.

CHAIR OGAN asked Mr. Heinze if he agreed that this approach was not mutually exclusive of one group over another. He also asked whether producers would be interested in this tax-free status.

MR. HEINZE replied that this was a friendly approach. In looking at the Authority and how it provides for the benefit of all Alaskans, he felt that its ability to provide a business structure offering definite advantages over any commercial enterprise was very important in terms of commercializing North Slope gas. The associated tariffs are at the edge of commerciality and these efforts could probably reduce those tariffs by about one-third, which would make a significant difference in the economics and competitiveness of a project. The first 530 miles, whether it moves LNG or goes down the highway, shares a common route from the North Slope following the TAPS to Delta. One project continues down the highway while the other project continues down the Richardson Highway to Valdez. To the extent that both projects could share in the cost, building, and use of the 530 miles, offers tremendous potential for cost-reduction, tariff reduction, and better economics. Mr. Heinze said that there was nothing incompatible about this kind of approach.

CHAIR OGAN said that earlier this year ANGDA was looking at building a much larger line to Delta; he asked what bcf capacity an LNG project would require per day.

3:49 p.m.

MR. HEINZE replied that at the end of last year, the ABC [a big capacity] line was proposed with the idea that, depending on the timing of the highway project, there would be six months to look at what could be done to move ANGDA's project forward and still provide the best opportunities for further uptake of gas off the North Slope. With a 36- or a 48-inch pipe and the proper design modifications, facilitation of production and transportation off the North Slope could be at least twice as big. The Authority initially looked at a 36-inch design, carrying up to 3 bcf per day. The initials were 2 bcf per day but expandable to 3 [bcf]. This kind of project implies reserves of 15 to 20 trillion cubic feet. The producer described line was initially 4.5 bcf per day, described at times as a 48-inch line or bigger. The implied reserve is 35 trillion cubic feet (tcf). For instance,

two 48-inch pipelines could handle about 10.5 trillion cubic feet per day, with the implied resource being about 75 trillion cubic feet. Mr. Heinze said there was some advantage to building the 530 miles, if not bigger than needed, at least with the ability to be easily expanded so it could have a high capacity for the future.

CHAIR OGAN asked how much gas the LNG plant anticipated using, in bcf per day.

MR. HEINZE responded that the proposed LNG project was based on 2 bcf per day. By adding compression, this could be expanded to 3 bcf per day. He said the producers' proposal was similar to MidAmerican's; their project would be designed initially for 4.5 bcf per day, and with the addition of compression, it could be expanded to 6 bcf per day. In both cases, expansion is dependent upon market availability.

CHAIR OGAN suggested that the committee consider the effect that the drawdown of gas would have on the North Slope's production of oil. He said efforts would be made to get the anticipated report by the Alaska Oil and Gas Conservation Commission [AOGCC]. Large quantities of gas are being addressed, and if it comes from Prudhoe Bay, there is a significant loss of revenue to the state because oil is worth much more than gas. The AOGCC has the authority to regulate the waste of hydrocarbons, but not economic waste, which is more of a DNR function. He mentioned being mindful of not producing so much gas for export from the North Slope that it would offset long-term revenues. He asked if ANGDA was planning to export to the Lower 48.

MR. HEINZE responded that the market would include the West Coast of the U.S. and that projections of the LNG needs of the U.S. grow dramatically over the next decade, from 2010 to 2020. Also, Japan, Taiwan, and Korea represent substantially good markets with an interest in North Slope gas, so those markets would be pursued. He said he didn't know how the 4.5 bcf would penetrate the Lower 48 market.

CHAIR OGAN said that every analyst who has talked with the Energy Council has factored in the natural gas pipeline down the highway as a basic assumption. Even with the 4.5 coming down the highway, America will be [importing] 11 to 20 percent of its energy needs in LNG by 2020. He said that although there is a demand, site-permitting will be a big hurdle. He said he was glad ANGDA is supportive and that [SB 271] dovetails with what ANGDA is trying to do.

SENATOR GEORGIANNA LINCOLN referred to Section 4 and asked how many plans ANGDA was envisioning and what the effect would be on the request for \$2.15 million.

MR. HEINZE referred to Section 4, and told the committee that the addition of private sector evaluation wouldn't be adding to ANGDA's work. He referred to the twelve items delineated in Section 4 as constituting a "feasibility study." He said the intention was to produce one feasibility study by June 15, 2004, as required by law and also as required by pursuit of the LNG market, which is dynamic. He said ANGDA has asked for an additional \$2.15 million of funding, of which probably 25 to 30 percent will involve the business structure of the Authority and would be applicable to almost any project. About \$1.5 million involves questions that are project-specific, and adding another project would require money to provide for engineering design, cost estimates, project schedules, and so forth. In reference to going down the highway, he said that a lot of money that's needed would be determined by what is available to base the work on. Luckily, Yukon Pacific [YPC] has been forthcoming regarding the Valdez project, and monies are being spent in review rather than in new design. The producers have just spent over \$100 million; he said he would like to do this more cheaply and thinks this is possible.

MR. HEINZE continued that SB 241 provides for the \$2.15 million as a supplement to this fiscal year's funding so that the work can be finished by June 15th. That money is not allocated for the next fiscal year. If SB 271 passes, because of the change in the timeline, he suggested that the funding be considered as FY05 funding and the second development plan be produced as required under this bill.

CHAIR OGAN referred to Section 4, page 3, paragraph (12), noting that maybe a private sector entity would bring work that's already been done in the last 25 years, since the highway route has certainly been studied by producers and others who have proposed building the pipeline. He said he hoped someone would take advantage of this state-owned, tax-free opportunity by planning, building, and thereby bearing a lot of the costs.

SENATOR ELTON asked if the supplemental \$2.15 million went ahead on its own, and if the deadline was pushed back to January, 2005, could the fiscal impact of SB 271 be handled in the [FY]05 budget.

MR. HEINZE said this was correct. He explained that a lot of information is available from Yukon Pacific on ANGDA's LNG project and that he didn't know what price tag to put on this, but it was worth well over 15 years, or \$100 or \$200 million worth of information. This information is not public but has been made available to ANGDA; contractors will need to verify that the information is reasonable. That's an incredible amount of work, and because of that, he said he preferred to stick with the funding and project schedule and to finish the feasibility study. He said he appreciates SB 271 and with the recent entry of a new applicant, different from the producer, it would be interesting to see if more information would be forthcoming in the next few months.

SENATOR ELTON asked if the scope of the Authority's involvement expanded to include the highway route, was it anticipated that protocols would have to be worked out with DNR and DOR, now that applications have been received. He asked how ANGDA would work with those two departments.

MR. HEINZE responded that the Authority would continue to work very closely with the departments. He explained that the Authority contributes to the state's effort by working on the feasibility of the "people's pipeline" to Valdez, the LNG export project, which is the will of the people. At the same time, the Authority has unique business structures that can be useful to the state. He said he is employed by the state's Department of Revenue, and works to ensure that the administration is aware of opportunities that ANGDA offers to lower the costs of projects. The supplemental funding request reveals that almost \$0.5 million dollars is included to further study business structure issues because that's an absolutely crucial part of what ANGDA is doing.

4:07 p.m.

SENATOR RALPH SEEKINS referred to a proposed bill that came out of the initiative on September 20, 2001, which states, "10. The permits necessary for an Alaskan gasline project have been pledged to the Alaska Natural Gas Development Authority, operating as a port authority, to facilitate the development of the project;" - he asked if this was still true.

MR. HEINZE responded that Yukon Pacific would make anything deemed good and valuable available for purchase, and until that determination was made, everything could be examined; however, ownership is not acquired by looking. For example, if YPC holds

an engineering design of the exact alignment of the pipe from Prudhoe Bay to Valdez, it might be a lot cheaper to purchase that rather than doing the detailed work to re-create it. Although the price is to be determined and negotiated, it will be for sale. Mr. Heinze said he thought this was a reasonable business structure at this point.

SENATOR SEEKINS asked if the rights-of-way or permits had been priced.

MR. HEINZE responded that money had been included in the supplemental request to have an expert advise on what was important and valuable, but that determination had not yet been made. As an agency of the state, ANGDA's right-of-way situation may be entirely different from that of a private company.

SENATOR SEEKINS asked if it was in Yukon Pacific's best interest for ANGDA to build or propose their line on YPC's permitted right-of-way.

MR. HEINZE replied that there was no doubt that YPC's cooperation "has a motive at the end of the day."

SENATOR SEEKINS asked if YPC also holds right-of-way permits that go from Delta to the Canadian border.

MR. HEINZE said he understands that they do not. He said he believes there are other parties who are certified under federal legislation.

CHAIR OGAN mentioned this was Foothills [Foothills Pipe Line Ltd.], acquired by TransCanada.

SENATOR SEEKINS said he assumed that if MidAmerican [MidAmerican Energy Holdings Company] or the producers wanted to build this pipeline from Delta to the Canadian border, then if the Authority's scope was extended, it would need to be determined whether permits necessary for an Alaskan gas project to the Canadian border have been pledged to the Authority. He asked, if SB 271 passed, would there be the same pledge of cooperation from Foothills, or whoever owns that right-of-way.

MR. HEINZE said no, the right-of-way permits and other things involved are not necessarily exclusive, but there is a time and cost advantage to dealing with those who have permits, rights of way, and so forth. The basic concept of right-of-way as embodied in both the federal and state Natural Gas Act is that

people providing the service of delivering the public resource ought to be able to work through the system. He said it was practical to work with people who have already studied the problem and have some of the permits and permission necessary.

SENATOR SEEKINS commented that there is something for sale here that is causing an economic vested interest in those who would influence which route of delivery of natural gas would take place. He noted that caution should be exercised to evaluate the reasons behind certain recommendations.

CHAIR OGAN said that SB 271 addresses public and private partnership. The private sector, regarding the route down the highway, involves several companies that have researched this for 25 years, both the producers on the North Slope and those who proposed building pipelines 25 years ago. It is mutually beneficial. He said it was something to be entered into cautiously, with willingness to exercise due diligence.

SENATOR SEEKINS recalled being on the governor's economic advisory committee on North Slope Natural Gas; the report produced for the state was the birth certificate for Yukon Pacific's looking to get that gas to market. He said the Legislature and Alaskans need to be flexible regarding how the gas gets to market because, "I don't know where the market is." He said if it was determined that a long-term and a beneficial market was in the Midwest, he would be more excited about the route through Canada benefiting people of Alaska versus gas that was liquefied and shipped elsewhere. He also suggested consideration of other spin-offs such as petrochemical possibilities and opportunities for employment from in-state processing of natural resources, not just the exportation. Senator Seekins said he wanted to make sure that options weren't being precluded and that the door was somewhat open to consider all avenues.

CHAIR OGAN said that through the Energy Council, he's had the opportunity to have first-hand discussions with people interested in acquiring Alaska's gas. World experts have said, "We need all of Alaska's gas and more." He told the committee that he had the opportunity to tour TransCanada's control room in Alberta, and it was impressive, with pipelines running the east-to-west coast across Canada. Alberta is a major supplier of natural gas to the United States. Their equivalent of the AOGCC ordered 100 gas wells shut-in because it was hurting oil production; there are supply/demand problems. He said he would

like to hear testimony from MidAmerican, TransCanada and the producers.

SENATOR ELTON stated that SB 247 similarly adds to the scope of ANGDA's work, and asked if it made sense to add, under the purview of the Authority, any route "except for over-the-top."

CHAIR OGAN responded that this is a major policy call, as it is a change in the voter initiative that said, "LNG to Valdez." He said in light of the new opportunities that were revealed last week and the applications under the Stranded Gas Act, this was an amazingly well-timed bill.

SENATOR TOM WAGONER concurred that the desire was to streamline the process as much as possible and avoid duplication of effort.

CHAIR OGAN suggested that competition among projects was good, and said that this was an exciting time to chair the Resources Committee.

TAPE 04-3, SIDE B

4:25 p.m.

SENATOR LINCOLN referred to [meeting of 9/10/03] when Deputy Commissioner Porter said, "There isn't enough gas to build two lines. The state should focus on passing the energy bill with the incentives to build a highway route pipeline. If more gas is found, then it would be appropriate to build the LNG line to Valdez or expand the pipeline or other alternatives." She asked for his response to questions that had been asked of him in a previous meeting [meeting of 1/21/04]. In response to CHAIR OGAN's question regarding relevancy, she said this was relevant because the Authority had produced development plans and she assumed that those plans were "all the routes."

MR. STEVE PORTER, Deputy Commissioner, Department of Revenue (DOR), testified that the state believes that both the Stranded Gas Act and ANGDA are important to moving gas to market in order to benefit Alaskans. In September, they thought the most effective way was to move gas through Canada, and now there are two applications proposing to do that. Additionally, the state thought ANGDA would be a strong complement to that, possibly by moving LNG to Valdez, the Cook Inlet, or implementing other alternatives to benefit the state such as barging gas on rivers such as the Yukon to transport gas.

SENATOR LINCOLN asked if his previous statement about focusing on the highway route had changed.

DEPUTY COMMISSIONER PORTER replied that it hasn't changed; it's unknown if there is enough gas in known reserves today to simultaneously have a 4.5 bcf pipeline to the Lower 48 and a 2 bcf LNG project. Although exploration might find 20 - 30 additional tcf on the slope, making expansion and additional opportunities available, the September [2003] testimony refers to a sequence, which is to build the major line first and then look at future expansion whereby the possibility of an LNG line might make sense as well.

CHAIR OGAN said the issue of whether there's enough gas depends on which gas is accessed. If access is wide open, if there is a pipeline company whose business is trucking gas, and there is an open season allowing people with leases in areas other than Prudhoe Bay, then the gas resource expands tremendously. If Foothills gas and Point Thompson gas get to the pipeline first, then Prudhoe Bay gas can be used to enhance oil production. There is an inherent conflict - not a bad thing - and companies have different interests; if one group builds a pipeline, they want to sell their gas and aren't as interested in being a charitable organization to help others to sell their gas. The state has an interest in making sure that the right gas is there first to preserve the oil; that will be the topic of a future hearing. Chair Ogan said he thought there is more than enough gas if all the gas is utilized, especially gas that hasn't been explored.

SENATOR SEEKINS asked Deputy Commissioner Porter if, when the state looks at potential markets for North Slope natural gas, it includes residential and commercial markets in the Anchorage Bowl and the Kenai Peninsula.

DEPUTY COMMISSIONER PORTER responded that the state has done a limited amount of research on that issue and has encouraged ANGDA to look at what might be potential and appropriate uses of gas in the state; a more thorough analysis needs to be done.

SENATOR SEEKINS referred to the demand and availability of natural gas for the Anchorage Bowl appears as a dwindling resource and that a lot of oil or coal will need to be imported to heat homes in the Anchorage Bowl in the not too distant future. He commented that there doesn't seem to be significant concern regarding those projections.

DEPUTY COMMISSIONER PORTER asked for further clarification.

SENATOR SEEKINS clarified that there is an eagerness to get the gas to market and convert it to cash. He said that the state is trying to authorize and encourage getting this natural resource to market to convert it to cash and he usually hears talk about either liquefying it, sending it to some unknown port in the Pacific Rim, or shipping it overland to the Lower 48. He asked, "What are we doing to provide for the markets from an in-state consumption and from an in-state value-added processing basis in the state?"

DEPUTY COMMISSIONER PORTER replied that the state is looking at in-state gas benefits. One reason the governor opposed the over-the-top route is because it's seen as an exclusively financial deal, without in-state gas benefit. Once gas is brought down through the state, it provides for the opportunity to negotiate the contract - there are additional options for in-state gas.

SENATOR SEEKINS said he wanted that response on record because what he hears from constituents is, "You're gonna sell it someplace else and my house is gonna go dark and cold."

CHAIR OGAN said that 60 percent of the population of the state - the Anchorage Bowl, Mat-Su Valley and Kenai - has a serious shortage. Enstar projects that in four years it won't know where 15 percent of the gas will come from; in eight years that figure will rise to about 80 percent. They won't know what field their supply is coming from. That's not very much time, he added.

SENATOR SEEKINS said he almost agrees with Senator Elton's comment, "any place except over-the-top," adding that he's after wherever there's cash and secondary benefits.

SENATOR WAGONER said that one of the reasons for his bill [SB 247] was the continuation of existing industries, infrastructure, and jobs. He said that a shortage of gas from Enstar in the Anchorage Basin compounds problems on the [Kenai] Peninsula, which is part of the equation.

SENATOR ELTON referred to the need under the application process for market reviews and referred to Deputy Commissioner Porter's earlier comment of allocating the review for Cook Inlet to the Authority. He asked, if SB 271 passes, if the state would interface with, or allocate responsibilities to the Authority.

He said he couldn't imagine the state ceding authority under Stranded Gas to the Authority, and asked, "Do you see using them in any way, as you're reviewing the applications?"

DEPUTY COMMISSIONER PORTER replied that the state sees using the Authority and is also interested in efforts not being duplicated. Both the state and the Authority need information regarding in-state gas use and it doesn't make sense to hire two contractors or to produce two reports; it makes sense to coordinate efforts.

SENATOR ELTON asked if SB 271 would get in the way of duties that need to be accomplished under the Stranded Gas Act. He asked if Deputy Commissioner Porter viewed SB 271 as problematic or if he was in favor of SB 271.

DEPUTY COMMISSIONER PORTER responded that the Authority's view, different from that of the Stranded Gas Act, sees whether there is an opportunity for the Authority to build a pipeline as a state entity rather than a private entity building a pipeline. He said the question was to determine the scope of the Authority - whether it should deal with the Alaska Highway line, a line to Valdez, a line to Cook Inlet. The governor's office has historically recommended that the Authority focus on Alaska issues - basically Prudhoe Bay to tidewater - and to look at in-state gas uses and the benefits that may arise from a gas line that goes to Canada and to the Lower 48. He said that is currently the easiest way to move forward. "Does that mean we're opposed to this?" He said it doesn't necessarily signify opposition or support of [SB 271], but things would coordinate better if ANGDA focused primarily on Alaska and on in-state uses.

4:44 p.m.

CHAIR OGAN said it was important to look at how SB 271 interfaces with the Stranded Gas Act and that this is probably a topic of discussion the next time the bill is before the committee because the Stranded Gas Act allows the administration to negotiate with whoever applies for payment in lieu of taxes - on ad valorem taxes. SB 271 makes the pipeline basically tax-free because it is owned by the state. How are those two going to interface? Chair Ogan asked [Deputy Commissioner Porter] to think about this and perhaps to prepare something in writing when SB 271 comes up again.

MR. LEONARD HERZOG, Assistant Attorney General, Oil, Gas & Mining Section, Department of Law (DOL), testified that he was available to answer questions.

CHAIR OGAN suggested that DOL answer the same question that was just asked of DOR - that is, how SB 271 interfaces with the Stranded Gas Act, and whether there are conflicts.

MR. HERZOG said he thought this would not be a legal problem, but rather would be a policy question for the administration and the Legislature to decide regarding how broadly to expand the initiative and ANGDA's responsibilities.

CHAIR OGAN asked if there was any difficulty, specifically asking how it works if there is a tax-free entity, the state, owning the pipeline, and yet the Stranded Gas Act allows the assets to hit the ground as a payment in lieu of taxes. He asked if it was correct to assume that if the state owned the pipeline, those assets would not be taxed by local government.

MR. HERZOG said that one example of things happening without real issues arising would be if the applicant, MidAmerican Energy, approached ANGDA and the state with an interest in building a pipeline, and also looked into taking advantage of some of the state's tax-free possibilities. He said there are ways that the proponents of the applications for stranded gas could approach the state and possibly work in that manner. ANGDA, specifically, was not contemplated by the Stranded Gas Act and doesn't have authority right now to deal with the applications in that manner.

CHAIR OGAN asked if a deal was made with ANGDA whereby somebody built and operated a pipeline, would the equipment that hits the ground be subject to stranded gas negotiations whereas the pipe wouldn't be?

MR. HERZOG said he thought ANGDA would be receptive to working with private entities that wanted to take advantage of the state's tax situation.

SENATOR SEEKINS asked if the state owns the pipeline, is it subject to local property taxes.

CHAIR OGAN said he didn't think so.

SENATOR SEEKINS asked if it is partially owned by the state, is it subject to a pro-rata property tax, and what would happen, if

the state were a partial owner, to taxability regarding the local political subdivisions along the route.

MR. HERZOG responded that he was not prepared to give such tax counsel.

CHAIR OGAN said it seemed to him that if the state owned the pipeline, the local governments couldn't tax the state entity, whether it's the LNG line, a pipeline to Canada or both. He wondered if there was a need to look at the Stranded Gas Act and amend it regarding making payment in lieu of taxes, to compensate local communities for state ownership of the pipeline.

MR. HERZOG mentioned getting outside counsel as well as consulting with the attorneys in his office who work on the Stranded Gas Act before the next hearing.

CHAIR OGAN asked if it was correct to assume that if ANGDA owned any gas line then it wouldn't be subject to local municipality taxation.

MR. HEINZE replied that the law created through the initiative and the other realities is that the Authority's assets would not be taxable by local entities; this would be the property of the State of Alaska, because ANGDA is a public corporation of the state. He explained that this was similar to local entities not taxing the International Airport or other state-owned facilities. Recognizing that construction activity would impact local communities, ANGDA would, as a matter of policy, look for ways to produce something of value for the community. For example, if ANGDA was exempt from property taxes in Fairbanks, it might be reasonable to provide for the building of some sort of gas distribution system in that area, or some other facility that might be of great value to the community. Because the Authority is a nonprofit, with motives of public service, not profit, he drew an analogy to how AHFC [Alaska Housing Finance Corporation] uses its margin to help homebuyers throughout Alaska, saying that ANGDA would find ways to help communities that would be impacted. He said the focus on the tax issue was on the federal income tax, which in many cases constitutes 25 to 30 percent of the cost structure, and that ANGDA's intent is not to use savings in state taxes to any big advantage.

CHAIR OGAN asked if anything mandated this in-kind payment in lieu of taxes.

MR. HEINZE said that the board of directors has nothing personal to gain from this and there is no profit motive associated with the Authority. He said he was a state employee and the board he works for are members of the public and are appointed by the governor. As such, the broad structuring of the business is to gain the advantage for the people of Alaska. The right way for the people's pipeline to achieve that is to construct certain ancillary facilities of value in the communities along the way. The spur line into the Cook Inlet area and other projects are viewed as important opportunities to make that contribution very directly.

CHAIR OGAN re-stated the question, asking if they are nice guys who are civic minded or if this was mandated.

MR. HEINZE replied that [ANGDA] is as public-spirited as AHFC, and that if Chair Ogan felt the need for a mandate, then he probably ought to "lay a mandate on us."

CHAIR OGAN said, "I think I got my answer."

SENATOR SEEKINS said it appeared to him that every \$1 that was part of that public corporation would be \$1 held in trust for the people in Alaska and would be subject to legislative appropriation. As nice guys, they couldn't allocate money to help impacted communities unless it was legislatively appropriated.

CHAIR OGAN said this was a good discussion and suggested that the question be put on the back burner for now.

MR. NELS ANDERSON, Jr., testified via teleconference from Dillingham, saying that he was a lifelong resident of Alaska. He said he previously spoke [meeting of 1/21/04] in favor of SB 241. He said if SB 271 does not slow down the work of the ANGDA, it would be appreciated. As a member of the public, he was hoping to seize some of the gas at some point in time to convert it into energy in order to help lower the cost of energy. He clarified that he saw the gas from the North Slope as a potential source of energy that could bring down the cost of living and energize the salmon industry, which has suffered from low prices and fewer fish. He said low-cost energy, necessary to produce value-added products in the Bay, could be an important part of that strategy.

MR. ANDERSON proposed an amendment, referring to page 3, Section 4, (10) of SB 271, and suggested that following the language, "a

plan to maximize Alaska hire, including project labor agreements;" that the following be added: "including a work force development advisory council". He suggested this as a way to address criticism of the construction of the oil pipeline that very few rural Alaskans worked on that pipeline. Few rural Alaskans work at Alyeska, although the percentage rate has gone up. He said inclusion of this phrase would allow the development authority in the state to work closely with Native groups, unions, the state, and the Denali Commission to coordinate a plan to maximize Alaska hire. He urged the committee to expedite passage of SB 241 and SB 271.

CHAIR OGAN said this was a laudable goal and he would like to look at ways to incorporate Alaskans in pipeline construction. He said timing was critical and if it looked like this was a sanctioned project then such language might kick in. He said he wasn't excited about creating another council or task force as a way to spend state money to study things.

SENATOR SEEKINS suggested checking with the Commissioner of the Department of Labor & Workforce Development.

CHAIR OGAN confirmed that this department addressed this issue, and thanked Mr. Anderson for his testimony.

SENATOR ELTON pointed out that the language in SB 271, "(10) a plan to maximize Alaska hire" would automatically include workforce development issues, but he would check with the Department of Labor and contact Mr. Anderson.

CHAIR OGAN asked if there was any further testimony. Hearing none, he adjourned the Senate Resources Standing Committee at 5:04 p.m.

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