

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

March 7, 2006

6:26 p.m.

MEMBERS PRESENT

Representative Vic Kohring, Chair
Representative Ralph Samuels
Representative Nancy Dahlstrom
Representative Berta Gardner
Representative David Guttenberg

MEMBERS ABSENT

Representative Lesil McGuire
Representative Norman Rokeberg

COMMITTEE CALENDAR

HOUSE BILL NO. 223

"An Act levying a tax on certain known resources of natural gas, conditionally repealing the levy of that tax, and authorizing a credit for payments of that tax against amounts due under the oil and gas properties production (severance) tax if requirements relating to the sale and delivery of the natural gas are met; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 372

"An Act delaying to June 30, 2010, the last date by which hydrocarbon exploration geophysical work must be performed or drilling of a stratigraphic test well or exploratory well must be completed in order for a person to qualify for an exploration incentive credit under the oil and gas exploration incentive credit that is not authorized by the Alaska Land Act."

- SCHEDULED BUT NOT HEARD

HOUSE BILL NO. 386

"An Act making uniform throughout the state the deadline for certain exploration expenditures used as credits against the production tax on oil and gas produced from a lease or property in the state by extending to July 1, 2010, the deadline for those expenditures on leases or properties located north of 68 degrees, 15 minutes, North latitude."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 223

SHORT TITLE: NATURAL GAS PIPELINE INCENTIVE/ GAS TAX

SPONSOR(S): REPRESENTATIVE(S) CROFT

03/17/05	(H)	READ THE FIRST TIME - REFERRALS
03/17/05	(H)	W&M, O&G, RES
04/25/05	(H)	W&M AT 8:30 AM CAPITOL 106
04/25/05	(H)	Heard & Held
04/25/05	(H)	MINUTE(W&M)
01/11/06	(H)	W&M AT 9:00 AM CAPITOL 106
01/11/06	(H)	Heard & Held
01/11/06	(H)	MINUTE(W&M)
01/18/06	(H)	W&M AT 9:00 AM CAPITOL 106
01/18/06	(H)	Heard & Held
01/18/06	(H)	MINUTE(W&M)
01/25/06	(H)	W&M AT 9:00 AM CAPITOL 106
01/25/06	(H)	Heard & Held
01/25/06	(H)	MINUTE(W&M)
02/01/06	(H)	W&M AT 9:00 AM CAPITOL 106
02/01/06	(H)	Heard & Held
02/01/06	(H)	MINUTE(W&M)
02/03/06	(H)	W&M RPT 1DP 3NR 1AM
02/03/06	(H)	DP: GRUENBERG;
02/03/06	(H)	NR: WILSON, SAMUELS, SEATON;
02/03/06	(H)	AM: WEYHRAUCH
02/03/06	(H)	W&M AT 9:00 AM CAPITOL 106
02/03/06	(H)	Moved Out of Committee
02/03/06	(H)	MINUTE(W&M)
02/23/06	(H)	O&G AT 5:00 PM CAPITOL 124
02/23/06	(H)	Meeting Postponed
03/02/06	(H)	O&G AT 5:00 PM CAPITOL 124
03/02/06	(H)	Meeting Postponed
03/07/06	(H)	O&G AT 5:30 PM CAPITOL 124

WITNESS REGISTER

REPRESENTATIVE HARRY CRAWFORD

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: As co-sponsor, presented HB 223.

KEN ALPER, Staff

to Representative Eric Croft
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Spoke on behalf of the prime sponsor of HB 223, Representative Croft.

JIM WHITAKER, Mayor
Fairbanks North Star Borough
Fairbanks, Alaska

POSITION STATEMENT: Characterized HB 223 as a business decision that should be passed.

KEN KONRAD, Senior Vice President - Gas
BP Alaska
Anchorage, Alaska

POSITION STATEMENT: Characterized HB 223 as a bad policy.

JACK GRIFFIN, Vice President
External Affairs
ConocoPhillips Alaska, Inc.
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 223.

JUDY BRADY, Executive Director
Alaska Oil and Gas Association (AOGA)
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 223.

DEBRA VOGT
Haines, Alaska

POSITION STATEMENT: Characterized HB 223 as a direct and effective way to encourage the lease holders to get that gas to market.

MERRICK PEIRCE
Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 223.

DAVID GOTTSTEIN
Backbone 2
Anchorage, Alaska

POSITION STATEMENT: Characterized HB 223 is excellent legislation.

ACTION NARRATIVE

CHAIR VIC KOHRING called the House Special Committee on Oil and Gas meeting to order at [6:26:49 PM](#). Representatives Kohring, Dahlstrom, Gardner, and Guttenberg were present at the call to order. Representative Samuels arrived as the meeting was in progress.

HB 223-NATURAL GAS PIPELINE INCENTIVE/ GAS TAX

[6:26:59 PM](#)

CHAIR KOHRING announced that the first order of business would be HOUSE BILL NO. 223, "An Act levying a tax on certain known resources of natural gas, conditionally repealing the levy of that tax, and authorizing a credit for payments of that tax against amounts due under the oil and gas properties production (severance) tax if requirements relating to the sale and delivery of the natural gas are met; and providing for an effective date."

CHAIR KOHRING announced that it is not his intent to move HB 223.

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REPRESENTATIVE HARRY CRAWFORD, Alaska State Legislature, co-sponsor of HB 223, began by relating that HB 223 was born out of frustration and the prospects of huge deficits [for the state]. He highlighted that North America's largest gas field, Prudhoe Bay, sits untapped over the past 30 years. Although Prudhoe Bay's gas may not have made sense to go to market earlier, he didn't believe that to be the case over the last six to seven years. Alaska's gas is in competition with gas fields around the world. He suggested that the committee imagine countries such as Indonesia or Venezuela taking a back seat to another country because it doesn't fit in with the oil companies' plans and because other countries are telling the oil companies that they either use the resource or lose it.

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REPRESENTATIVE CRAWFORD acknowledged that for the last 30 years, different administrations and legislatures have tried really hard to find the right mix of incentives to get this gas to market. However, incentives alone haven't worked. Therefore, HB 223 attempts to provide a positive incentive and provide a penalty if the [oil companies] don't move forward with getting this resource to market. For every year the companies delay

putting Alaska's gas to market, there would be a financial penalty imposed on the companies. Representative Crawford related his belief that this legislation is the right thing to do in order to get this gas out of the ground and into America's marketplace.

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CHAIR KOHRING inquired as to whether the approach embodied in HB 223 has been used anywhere else in the world.

REPRESENTATIVE CRAWFORD answered that variations on this approach have been utilized. In fact, Alaska actually had a reserves tax on oil from 1974-1977. When the oil flowed through the pipeline, the reserves tax was eliminated.

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KEN ALPER, Staff to Representative Eric Croft, Alaska State Legislature, speaking on behalf of the prime sponsor of HB 223, related that other jurisdictions in the U.S. tax reserves within the property tax structure. However, within Alaska's oil and gas property tax, the reserves are exempt.

CHAIR KOHRING expressed concern with using the force of government to force the hand of the private sector and industry to accomplish this objective.

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REPRESENTATIVE CRAWFORD opined that without the government doing its part, Alaskans are placed at a disadvantage. It's incumbent upon the legislature to do everything it can to stand up for the people of Alaska and obtain the most of its resources, he said.

REPRESENTATIVE GUTTENBERG thanked the sponsors for introducing this legislation. He recalled the late 1970s, when the pipeline was completed and people thought another oil or a gas line was coming. However, 30 years later, the state is still waiting. This legislation offers a healthy approach to explore options to get Alaska's gas to market.

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JIM WHITAKER, Mayor, Fairbanks North Star Borough, said he didn't believe HB 223 should be viewed as even a little controversial. Furthermore, this legislation doesn't address a

philosophical debate or issue. This legislation is, however, a question about a business decision. He informed the committee that legislation similar to HB 223 was considered in the mid 1980s and again in 2000. Therefore, it's not a new idea in this state or other places in the world either. Drawing upon his experience living in oil provinces in the Middle East, Mayor Whitaker said that the notion is very simple: "Produce it or we'll take it back." He indicated that was also the message he heard when he was the chair of the House Special Committee on Oil and Gas when he called the various oil provinces regarding Alaska's situation.

MAYOR WHITAKER reiterated that the idea embodied in HB 223 isn't a new idea and is a practice that's fairly common around the world. In fact, this idea incentivizes the production of natural gas, which is a normal and ordinary business practice. He characterized the legislation as an investment incentive. He mentioned that an internal rate of return analysis is generally the industry standard utilized when determining whether to sanction a project or not. Given that an Alaska gas project is not sanctioned, additional costs will be incurred and a lower overall rate of return will result. However, if an Alaska gas project is sanctioned, a rate of return will be maintained or significantly increased. This is simply a business decision on the part of the producer's board of directors that relates to the set of circumstances as should be the same case for the legislature. Government, particularly the legislature, is implored to run [the construction of a gas line] as a business. If that were the case, this [legislation proposes] precisely what the [government] would do.

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MAYOR WHITAKER opined that HB 223 accomplishes the same goals as the legislature is considering as a replacement for the economic limit factor (ELF). The proposal in HB 223 incentivizes to produce and increases the state's revenues either way. Therefore, if the legislature is going to consider and pass a replacement for ELF utilizing that logic, the same logic should be applied to HB 223 and thus it should be passed. He concluded by saying, "It is an incentive to produce and one way or another, it does increase the state's revenue. And so, I simply ask that the legislature consider itself to be the state's board of directors and make a good business decision."

[6:44:26 PM](#)

KEN KONRAD, Senior Vice President - Gas, BP Alaska, paraphrased from the following written testimony [original punctuation provided]:

We believe this is bad policy - bad for industry and bad for Alaska. Furthermore, it de-stabilizes Alaska's fiscal regime at the very moment Alaska is trying to attract massive oil and gas investments. Staggering levels of investment are needed from the major and also to some extent independent oil and gas companies to help secure a 50 year oil and gas future on the North Slope.

That future is anchored by the gas pipeline but it also requires significant additional ANS [Alaska North Slope] investment to stem the disturbing ongoing rate of oil decline to keep oil production at economic levels. That future requires a stable and competitive fiscal regime.

All our time and energy over the past six months has been dedicated towards finalizing a Fiscal Contract with Alaska. We strongly believe that is the best means to advance a project.

Simply stated, a gas reserves tax really makes no sense - you don't tax projects into existence.

It seems the gas reserves tax and many of the other "gas now" ideas that have cycled through Alaska for many, many years are born out of frustration. Frustration driven by the incorrect perception by some that companies have been "warehousing" the gas.

As we sit here today poised to secure a gas pipeline deal supported by all three major producers, it is worth revisiting what has really occurred with ANS gas, how it has been conserved and put to good use and how Alaska has benefited by allowing market forces to guide ANS gas development.

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MR. KONRAD continued:

From the outset, I'll remind you that BP's business is producing and selling oil and gas. We don't make

money by not producing and not selling oil and gas. The so called "warehousing" of gas makes no sense for BP or its shareholders. In BP, if projects are commercially viable and if the risk/reward balance is right, those projects get funded. If they are not, they don't.

The initial plan for Prudhoe Bay gas was to build an overland pipeline to U.S. markets in the early 1980's. BP with other industry participants invested hundreds of millions of dollars towards a project that didn't work. That project would have transported ANS gas at a cost of \$4-\$5/mcf [thousand cubic feet] to be sold into a market averaging \$2/mcf that would have yielded a negative netback for both the resource owners and the State. It made no economic sense and was not advanced.

Through the 1990's, various LNG [liquefied natural gas] ideas were studied by all three major producers as well as others. Millions were spent. These LNG projects would have yielded a netback price for resource owners and the State near zero or at best, slightly positive. None of these LNG ideas made economic sense and they did not advance.

But let's not just talk about what hasn't happened and what won't happen. Let's talk about what has happened and what will happen with ANS gas.

A series of very large gas related investments have occurred at Prudhoe Bay over many years. Those investments, costing billions of dollars and generating thousands of jobs, increased the oil recovery from Prudhoe by more than 3 billion barrels (energy equivalence of more than 18 TCF [trillion cubic feet] of gas) generating many billions of dollars to State revenue.

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MR. KONRAD continued:

Other North Slope fields have made many similar, albeit smaller gas related investments with similar benefits - more jobs, higher oil recovery and more State revenue.

MR. KONRAD then turned the committee's attention to the last page of his written testimony, which is a chart entitled "Alaska Gas Timeline." As mentioned earlier, in the early 1980s the decision was made not to advance a project that had a "hopelessly negative netback." However, a series of projects was started. In 1984 the seawater injection plant was constructed for water flooding as well as to maintain reservoir pressure high enough at Prudhoe Bay to support an admissible gas enhanced oil recovery (EOR) project. In 1986 a central gas facility, a facility that strips gas of some of its heavier components in order to manufacture EOR solvents that can strip more oil out of the rock. In 1990 the Gas Handling Expansion I (GHX-1) project was completed and increased field gas handling capacity to cycle more gas and recover more oil. In 1995 GHX-2 was completed and increased gas handling capacity to 7.5 billion cubic feet (bcf) a day. In 1999 the Miscible Injection Expansion (MIX) project was completed. During that time, gas prices increased and the Prudhoe Bay owners realigned their economic interest. In 2001 the Joint Study Team formed by the three producers to study the overland gas pipeline.

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MR. KONRAD highlighted that in 2003 the Stranded Gas Development Act was reauthorized and 2004 passed key enabling legislation. A couple of months later, the major companies placed before the state a comprehensive proposal that would've allowed the gas project to advance. The details surrounding that proposal have been under negotiation ever since, he said. Mr. Konrad then continued to paraphrase from the following written testimony:

The combination of technological innovation and allowing natural market forces to work has enabled wealth creation and benefits for both Alaska and industry. At the same time, populist gas schemes that would have effectively given Alaska's gas away without value were avoided.

Today, a modern, high pressure, large diameter pipeline as proposed by BP and the other major ANS resource owners, in partnership with the State, can bring another round of benefits from Alaska's gas.

It would yield a reasonable netback price for the gas, create thousands upon thousands of jobs, generate billions of dollars in State revenues and create a new

industry in Alaska. An industry exploring for, and developing, both oil and gas. An industry that with significant additional investment, can create another 50 years of oil and gas activity on the North Slope.

The stars are aligned. The State and all 3 major producers are aligned behind a single ANS gas export project - both as resource owners and as equity partners. The opportunity to advance an economically efficient gas pipeline is at our doorstep.

This Legislature will soon have an opportunity to review, and I hope support, a Fiscal Contract that will advance a gas pipeline.

Thank you for the opportunity to testify. I'd be happy to answer any questions.

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REPRESENTATIVE GARDNER inquired as to the position BP would hold in regard to development of the gas fields if any of the following occurred: HB 488 or similar legislation that's acceptable to the major producers isn't passed; the legislature doesn't amend the Stranded Gas Development Act; or the legislature doesn't approve the governor's contract.

MR. KONRAD opined that those outcomes would make it very difficult. He related that he is very confident that once the contract is out for a full and open debate, people will see the benefits and be supportive.

REPRESENTATIVE GUTTENBERG related that many legislators believe that the negotiations will result in a contract to build [a gas pipeline]. However, the testimony indicates that it's going to be a fiscal regime rather than a contract to build. He inquired as to the difference between a fiscal contract with the state and building a gas line.

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MR. KONRAD answered that the aforementioned will be easier to explain once the fiscal contract is available. He pointed out that BP alone doesn't control the construction decision as it requires a rigorous regulatory process.

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JACK GRIFFIN, Vice President, External Affairs, ConocoPhillips Alaska, Inc. ("ConocoPhillips"), reminded the committee that ConocoPhillips has presented testimony last year and earlier this year in opposition to HB 223, which he said remains. Mr. Griffin then said:

And to clarify, if I can, some confusion regarding the affect this bill would have on ConocoPhillips, a company that not only possesses all of the incentives necessary to move forward on a North Slope gas project but, in fact, has taken every reasonable step within its power to do so. Mr. Chairman, as you and the other members of this committee well know, ConocoPhillips has reached an agreement with the administration on the base, fiscal, and other terms that we need to move forward on a North Slope gas project. We reached an agreement in principle with the state on October 21st of last year and worked diligently over the following weeks to resolve outstanding technical and drafting issues. ConocoPhillips now has a deal with the state that it is willing to use as a basis for moving to the next phase of project development. Our agreement with the state is the culmination of a multi-year effort. Following a \$125 million cost study conducted jointly with the other major North Slope producers to move the North Slope gas project to the next phase of development. ConocoPhillips took a leadership role in seeking from you a reauthorization of the Stranded Gas Development Act, which has led directly to our contract with the state. ConocoPhillips took a leadership role in obtaining several critical pieces of federal legislation that will help bring greater predictability and efficiency to the federal permitting process as well as, we hope, lower the cost of the debt for the project. We also took a leadership role in advancing an application to the state under the Stranded Gas Development Act. And, obviously, we are taking a leading role in crafting and finalizing an appropriate fiscal contract for the project. We believe the time has come to move to the next phase of North Slope gas development. We are ready and willing to take that step.

HB 223, however, undermines our gas development efforts by penalizing ConocoPhillips and the other

major North Slope producers for taking the very steps that the administration and this legislature have urged us to take to advance the North Slope gas project. Specifically, and in contrast to testimony that has previously been provided on this bill, there is nothing that ConocoPhillips itself can do under this bill, as it is currently written, to avoid imposition of this new tax short of surrendering the billions of dollars we have already invested in our lease hold interests at Prudhoe Bay. At a previous hearing on this bill and in testimony today, it was suggested that ConocoPhillips could avoid this new tax by selling its gas or by committing its gas to a project under an open season. In fact, that is not the case. This tax is automatic and unavoidable. If we started welding steel and laying pipe tomorrow, we could not avoid this new tax. Now supporters of this new tax have claimed that our tax payment will be refunded if the North Slope producers move forward with the gas project. We don't believe that this claim is accurate. The amount of ConocoPhillips' obligation under this bill is likely to exceed, by a substantial amount, \$200 million per year over the next 10 years. Under the proposed legislation, these tax dollars would not be refunded until perhaps 10-25 years in the future, without any allowance for the time value of money. That coupled with limitations on the amount that can be refunded each month as well as a final cutoff date for refunds guarantee that only a fraction of the tax that is paid would actually be refunded.

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MR. GRIFFIN continued:

Indeed, ConocoPhillips' obligation to pay the tax continues even if a gas project is delayed for reasons beyond its control, such as state or federal inaction. More specifically, the project cannot move forward without appropriate state and federal permits, but there is no guaranteed date by which this permits will be issued. In fact, if this bill becomes law, the state will actually have an incentive to delay the project, simply to force North Slope producers like ConocoPhillips to continue to pay this punitive tax. It is difficult to imagine a more destructive tax

policy for the state to date, particularly now when we are on the verge of moving the project to its next stage of development. Consequently, we urge you to reject this bill. In closing, I would like to voice our belief that the bill raises additional significant legal and policy issues, including issues under both the state and federal constitutions. Obviously, we have not tried to address all of those issues in my comments today. Again, Mr. Chairman and members of the committee, thank you for considering our views.

REPRESENTATIVE GARDNER commented that the legislature is at a disadvantage because members haven't seen the contract that has been negotiated with the governor. She then inquired as to ConocoPhillips' timeline, such as when construction would occur and gas would flow, should everything proposed by the governor proceed like clock work.

MR. GRIFFIN informed the committee that of the \$125 million that ConocoPhillips, BP, and ExxonMobil Corporation ("ExxonMobil") spent to study this project, a success-case timeline was developed. The aforementioned specifies that it will take about 9-10 years from the time the producers re-form the project team until first gas starts flowing to market. He specified that there is an upfront period to allow preparation for the permitting process as well as an extensive permitting process.

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REPRESENTATIVE GUTTENBERG recalled Mr. Griffin's testimony that HB 223 provides the state an incentive to delay. Although that is [a possibility], he pointed out that there are many scenarios that can be played out. However, in the end the sponsors of the legislation and others simply want the gas to reach the market.

MR. GRIFFIN said that he believes the legislature and the public want to move the gas project forward. However, the reality of HB 223 is that the state will collect revenues as long as the project doesn't move forward. Therefore, it becomes a financial incentive for the state to delay issuing permits. Whether the desire to move forward on the project will overcome the financial incentive to delay is hard to predict, as are other components. Mr. Griffin opined, "It's not hard to imagine a scenario where the state would actually be collecting more under this tax than it would as a participant in the gas project."

[7:07:03 PM](#)

JUDY BRADY, Executive Director, Alaska Oil and Gas Association (AOGA), began by relating that all of the members of AOGA are very interested in having the gas pipeline be a success. She then paraphrased from the following written testimony [original punctuation provided]:

AOGA is strongly opposed to the concept of oil or gas reserve taxes and therefore opposes House Bill 223, which would impose a gas reserve tax on North Slope fields.

HB 223 would create, in terms of monetary impact, one of the most massive new taxes in the United States, and reflects a basic misunderstanding of how mega projects are developed, financed and approved. The \$20 plus billion gas pipeline project is unique in its size, complexity and risk.

HB 223, which is touted as a way of spurring the development of a natural gas pipeline, only adds to the economic risk of this project and the potential of putting the project at risk. The fact is no project can be taxed into existence. A project can be taxed out of existence.

We have been asked if AOGA has reconsidered our opposition to the concept of reserve tax legislation, in light of the fact that an initiative to enact a gas reserves tax has been certified for the 2006 General Election ballot.

The answer to that question is NO. AOGA continues to strongly oppose the concept of gas reserve tax legislation for the reasons outlined in our submitted testimony. Any legislation that would remove the initiative from the ballot would suffer from the same flaws that lead us to oppose HB 223.

The many difficult and complicated actions that must take place to build this mega-project simply will not be influenced or hurried because of a threat of retaliation in the form of a huge punitive tax. In fact, as we have said, a punitive tax is both counter-productive and unnecessary.

Positive progress continues to be made according to all public reports. Governor Murkowski has announced that a contract establishing fiscal terms for a gas pipeline will be available for public review and legislative action in the near future. He has announced his plans for a special session to take action on the gas contract.

We believe that as Alaskans see positive progress in the many complicated and difficult policy issues to be addressed, they will also agree that a gas reserve tax is unnecessary and counter-productive.

The common goal is to build a gas pipeline. AOGA will continue to support each positive step that ensures that goal is accomplished. A gas reserves tax is not a positive step.

Thank you, Mr. Chairman, for allowing us to make this testimony on behalf of AOGA and its members.

[7:11:39 PM](#)

DEBRA VOGT informed the committee she retired in 1999 after a 20-year career with the state. She related that for most of her career she was involved with oil and gas taxes. Ms. Vogt provided the following testimony:

This bill would institute a reserves tax on certain natural gas in place. The tax would be repealed when a gas line is built and the gas is traveling down it. At that time, the taxpayer can take the taxes paid under the bill as a credit against the taxpayer's severance tax liability. The credit provisions expire in 2030. If the taxpayer doesn't want to pay the tax, it can abandon its leases and the gas will revert to the state. These provisions will clearly provide an incentive to get these natural resources to market. The state had a reserves tax on oil in the years just before the pipeline ... and other states and municipalities tax hydrocarbon reserves just as they tax other property. In my view, this is a much more direct and effective way to encourage the lease holders to get that gas to market than is the undisclosed plan that the governor says he has up his sleeve. This legislature is being asked to buy a pig in a poke as far as the governor's plan is concerned -

- you don't get to see the other side of the deal until you've put all your cards on the table. At the minimum, you should have all the details of the rumored plan on the table before you accept or reject an alternative like this. If you want to see the benefit of our natural gas resources, this approach has merit. I urge your serious consideration. Thanks for letting me testify.

MS. VOGT, in response to Representative Guttenberg, said that she didn't find the opposition to HB 223 unusual. Ms. Vogt opined that she doesn't know what HB 223 puts at risk because there is no knowledge of an alternative plan. Therefore, she reiterated the need for all plans to be available for review.

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MERRICK PEIRCE opined that HB 223 is outstanding legislation that's long overdue. One of the reasons this approach is a good way to get Alaska's gas into the market is because the retired president of ARCO Alaska testified before the legislature years ago saying that legislation such as HB 223 would be necessary to get an Alaska gas pipeline built. Mr. Peirce acknowledged that the oil companies have said that HB 488, as proposed by Governor Murkowski, has to be passed or they will walk away from a gas pipeline deal. To that, Mr. Peirce said there may be a better way to obtain a gas pipeline, which he said would be through the Port Authority's proposal. Mr. Peirce pointed out that there is no doubt that the initiative that was just certified will be passed, and therefore the only question is why the legislature doesn't tweak this legislation, if necessary, and pass it.

MR. PEIRCE posed a scenario in which HB 223 is passed and no gas pipeline is built. The aforementioned would result in the Fairbanks community receiving just shy of \$1 billion annually in revenue, additional revenue beyond what the state currently receives. That money would make it very likely there would be a dramatic increase in state and municipal revenue assistance for the Fairbanks North Star Borough, which has among the highest property taxes in the state. On the other hand, if HB 223 induces the construction of the gas pipeline, there are many benefits that he said he wouldn't go into. However, for Fairbanks in particular it's essential because the community is bearing a massive burden to keep homes and businesses warm. In Fairbanks there isn't much of an alternative to oil heating fuel, he opined. Mr. Peirce opined, "It's a real shame that legislation like HB 223 wasn't passed over 10 years ago as we

would already be enjoying the benefits that I just described. All we can do now is to try and make up for lost time and get this passed as quickly as possible." Mr. Peirce concluded by noting that he often philosophically agrees with Chairman Kohring as he, too, isn't a fan of intrusive government. However, on this particular issue of determining how to best develop the natural resources of the state, the constitution requires that the return on the state's natural resources be maximized. This legislation, he opined, is an appropriate way to do so.

[7:20:16 PM](#)

DAVID GOTTSTEIN, Backbone 2, began by characterizing the relationship between the state and the oil industry such that the oil industry on the North Slope represents tenants with the right of first refusal. The oil industry's obligation is to produce the resource to the maximum benefit to the state, although it may not be to the industry's benefit. One of the issues continuously being raised is that perhaps these projects doesn't rise to the top of the capital deployment requirements of the oil companies. However, that's not the requirement, he opined. He emphasized, "We won't actually know if the gas is stranded unless we make the gas available in an open, free competitive bid process." Therefore, if no one shows up, then it's stranded. If someone does show up and is willing to take the gas in an economic form and build a pipeline, then it isn't stranded and proves it's economic. Mr. Gottstein opined that HB 223 is excellent legislation. He expressed concern that the oil industry is expert at playing hard ball, but the state is not. Therefore, the state needs to use every tool available to compete. In conclusion, Mr. Gottstein strongly urged the committee to review HB 223 seriously because it improves the state's economic clout.

[7:24:14 PM](#)

REPRESENTATIVE GUTTENBERG moved that the committee adopt CSHB 223, Version 24-LS0037\T, Chenoweth, 2/23/06, as the working document.

CHAIR KOHRING objected for purposes of discussion.

REPRESENTATIVE DAHLSTROM inquired as to the changes embodied in Version T.

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REPRESENTATIVE CRAWFORD clarified that Version T makes changes such that the legislation mirrors the initiative. He specified that the language on page 1, line 10, was added. On page 1, line 12, the language "**Tax on certain leases having taxable gas**" was inserted. He then pointed out that the language on page 2, lines 1 and 17 was added. On page 3, lines 17-18, the language: "A lessee holding an interest in property taxable under this chapter". On page 3, lines 22-23, the language: "an operator of a lease holding an interest in property" was added. On page 5, line 15, the language: "A lessee holding an interest in property subject to the tax" was added as was the language: "property subject to the tax imposed under AS 43.58" on line 22. On page 5, line 29, the term "service" was added. Continuing on page 5, the language: "from a presubscription agreement made public within 10 days of execution" on line 31 was added. On page 6, lines 11 and 15, the term "service" was inserted. He then pointed out that on page 7, lines 4-7, a new definition of "binding transportation service agreement" was inserted. Continuing on page 7, line 16, Section 5 was inserted such that the uncodified law of the state of Alaska is amended by adding a new section. On page 8, lines 4-17, is a new section specifying how the escrow is dealt with to hold the money until such time until the gas pipeline is built and the gas is flowing.

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MR. ALPER reminded the committee that the aforementioned are technical changes to bring the language of the legislation in line with the initiative to be on the November ballot. He did highlight the substantial item, which is [the provision] that exempts the state's royalty share of the gas. He then explained that currently before the committee is a fiscal note that places the estimated revenue at \$1.01 billion, which under the revised language would be about \$880 million.

CHAIR KOHRING maintained his objection. He explained that he isn't sure of the ramifications of Version T. Furthermore, since HB 223 is of such significance, he said he believes the legislation should receive further consideration.

REPRESENTATIVE DAHLSTROM commented that she isn't familiar with the escrow payment and the binding transportation service agreement provisions and what those accomplish. Therefore, she expressed her desire to hold off on taking a vote on the legislation.

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REPRESENTATIVE GUTTENBERG related his understanding that the purpose of Version T is to bring the legislation back to the same place as the ballot initiative.

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REPRESENTATIVE GUTTENBERG withdrew his motion to adopt Version T as the work draft.

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REPRESENTATIVE DAHLSTROM requested a copy of the ballot initiative.

REPRESENTATIVE GUTTENBERG related his belief that when the industry looked at the long-term aspect of what will have to be done to maintain control, they knew that an initiative such as this would eventually come forward. Therefore, he opined that it's time for the state and the legislature to play the same game as the industry. He concluded by highlighting that the Alaska State Constitution specifies that the [oil industry] is supposed to manage the resources for the maximum benefit for the people of Alaska, which is questionable at this point. Therefore, HB 223 is a step toward getting something done.

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CHAIR KOHRING noted that the public hearing would be held open and then announced that HB 223 would be held over.

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ADJOURNMENT

CHAIR KOHRING announced at 7:36 p.m. that the committee would recess to the call of the chair.