

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON NATURAL GAS DEVELOPMENT

June 1, 2006

1:38 p.m.

MEMBERS PRESENT

Chair Ralph Seekins
Senator Thomas Wagoner
Senator Lyda Green
Senator Ben Stevens
Senator Gary Wilken
Senator Bert Stedman
Senator Fred Dyson
Senator Al Kookesh
Senator Kim Elton
Senator Donny Olson
Senator Lyman Hoffman
Senator Con Bunde

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Nancy Dahlstrom
Senator Gary Stevens
Senator Charlie Huggins
Senator Bettye Davis
Senator Johnny Ellis
Senator Gene Therriault

COMMITTEE CALENDAR

SENATE BILL NO. 2003

"An Act establishing the Alaska Natural Gas Pipeline Corporation to finance, own, and manage the state's interest in the Alaska North Slope natural gas pipeline project and relating to that corporation and to subsidiary entities of that corporation; relating to owner entities of the Alaska North Slope natural gas pipeline project, including provisions concerning Alaska North Slope natural gas pipeline project indemnities; establishing the gas pipeline project cash reserves fund in the corporation and establishing the Alaska natural gas pipeline construction loan fund in the Department of Revenue; making conforming amendments; and providing for an effective date."

HEARD AND HELD

SENATE BILL NO. 2004

"An Act relating to the Alaska Stranded Gas Development Act, including clarifications or provision of additional authority for the development of stranded gas fiscal contract terms; making a conforming amendment to the Revised Uniform Arbitration Act; relating to municipal impact money received under the terms of a stranded gas fiscal contract; and providing for an effective date."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB2003

SHORT TITLE: NATURAL GAS PIPELINE CORPORATION

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

05/31/06 (S) READ THE FIRST TIME - HELD ON SECY'S
DESK

06/01/06 (S) NGD AT 1:30 PM SENATE FINANCE 532

BILL: SB 2004

SHORT TITLE: STRANDED GAS DEVELOPMENT ACT AMENDMENTS

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

05/31/06 (S) READ THE FIRST TIME - HELD ON SECY'S
DESK

06/01/06 (S) NGD AT 1:30 PM SENATE FINANCE 532

WITNESS REGISTER

BONNIE HARRIS, Assistant Attorney General
Division of Oil and Gas
Department of Law
PO Box 110300
Juneau, AK 99811-0300

POSITION STATEMENT: Commented on SB 2004.

KEVIN JARDELL, Legislative Director
Office of the Governor
PO Box 110001
Juneau, AK 99811-0001

POSITION STATEMENT: Commented on SB 2004.

JOSEPH DONAHUE, Counsel to the Governor
Preston Gates & Ellis

420 L Street, Suite 400
Anchorage, AK 99501-1971
POSITION STATEMENT: Commented on SB 2004.

STEVEN B. PORTER, Deputy Commissioner
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400
POSITION STATEMENT: Commented on SB 2003 and SB 2004.

JIM BALDWIN, Counsel to the Office of the Attorney General
Department of Law
PO Box 110300
Juneau, AK 99811-0300
POSITION STATEMENT: Commented on SB 2003.

LOUISIANA W. CUTLER, Counsel to the Governor
Preston Gates & Ellis
420 L Street, Suite 400
Anchorage, AK 99501-1971
POSITION STATEMENT: Commented on SB 2003.

REPRESENTATIVE DAHLSTROM
State Capitol
Juneau, AK
POSITION STATEMENT: Commented on SB 2003.

ACTION NARRATIVE

CHAIR RALPH SEEKINS called the Senate Special Committee on Natural Gas Development meeting to order at [1:38:05 PM](#). Present at the call to order were Senators Lyda Green, Thomas Wagoner, Albert Kookesh, Kim Elton, Donny Olson, Con Bunde, Ben Stevens, Gary Wilken, Bert Stedman, Fred Dyson and Chair Ralph Seekins; Senator Lyman Hoffman arrived as the meeting was in progress.

SB 2004-STRANDED GAS DEVELOPMENT ACT AMENDMENTS

CHAIR SEEKINS announced SB 2004 to be up for consideration.

BONNIE HARRIS, Assistant Attorney General, Department of Law, introduced Joe Donahue, who has worked on the amendments to the Stranded Gas Act; Jim Baldwin, to explain the last portion of the proposed amendments which deal with the Municipal Impact Fund; and Kevin Jardell, to answer policy questions.

KEVIN JARDELL, Legislative Director, Office of the Governor, presented a brief history of the Stranded Gas Act and the administration's position regarding its authority to negotiate the contract.

[1:43:53 PM](#)

He said the administration has acknowledged from the beginning that some of the contract provisions were outside the authority granted to it by the Stranded Gas Act.

[1:44:42 PM](#)

The question of what authority would be needed to move the project forward was unclear until the contract was complete. Now that there is an agreement between the administration and the sponsor group, the administration is asking for the grant of authority to allow it to put the contract before the legislature for review.

MR. JARDELL said that when the administration passed out the fiscal interest finding, it detailed the contract provisions for which the administration needed authority. The legislation now before the committee is intended to give the administration enough authority to renegotiate contract terms after the public hearings.

[1:47:25 PM](#)

SENATOR BUNDE asked if Mr. Jardell was talking about SB 2004, version A [labeled 24-GS2046\A].

MR. JARDELL replied yes.

[1:47:58 PM](#)

JOSEPH DONAHUE, Preston Gates & Ellis LLP, Counsel to the Governor, explained sections 1-11 of the bill as follows. He said that these provisions are primarily driven by two major policy decisions made by the administration during the course of negotiations of the proposed fiscal contract.

The first decision was for the state to become a full commercial partner in the project. That decision had three components: the state would take an equity position in the pipeline, it would take royalty gas in-kind for the duration of the contract and convert its production tax payments to gas in-kind payments, and it would take a shipping position on the pipeline.

[1:49:33 PM](#)

The second was the decision to incorporate oil fiscal certainty into the proposed fiscal contract.

[1:49:56 PM](#)

MR. DONOHUE said that Section 1 is the purpose section of the original Stranded Gas Development Act (SGDA). The new components of the fiscal contract incorporate the revised Petroleum Production Tax (PPT), Payment in Lieu of Taxes (PILT), and a provision that incorporates oil corporate income into the corporate income PILT provisions. Therefore, the first provision expands the scope of the fiscal terms and relates it to all of the sponsors' and other parties' business activity in the state, regardless of whether it is tied to the actual implementation of this project.

[1:51:42 PM](#)

In Section 1, page 2, paragraph (2), the term "related party" has been added and is defined in Section 16 of the bill as "an entity that is affiliated with a qualified sponsor that owns a portion of the project and is an intended beneficiary of fiscal certainty under the proposed fiscal contract." The related party concept ties to the midstream entities that will own the mainline, the gas treatment plants, and the gas transmission lines.

[1:53:12 PM](#)

Section 2. AS 43.82.020, revisits some primary negotiation topics identified by the original act and expands them to include express authority for payment of gas production tax in-kind [paragraph (3)]. Paragraph (4) authorizes the state to negotiate acquisition of and ownership in the project, as well as terms relating to collateral agreements authorized under AS 43.82.437.

MR. DONOHUE explained that changes in paragraph (1) of 43.82.020 are intended to clarify that oil fiscal certainty can be granted regardless of whether the particular entity is involved in this project, or the earnings being protected arise from it.

[1:55:23 PM](#)

Changes in paragraph (2) reflect a broadening of the provisions that the Commissioner of Revenue and the Commissioner of Natural Resources can negotiate. Once negotiated and in the fiscal contract, they would supersede any conflicting provisions of oil and gas leases and unit agreements.

[1:57:03 PM](#)

SENATOR BUNDE asked if the agreements in Section 2 are subject to legislative ratification.

MR. DONOHUE replied that they refer to existing oil and gas leases drafted pursuant to statutory authority and subject to the contractual relationship with the producers.

[1:57:46 PM](#)

CHAIR SEEKINS asked whether the terms would have to be modified in the contract.

MR. DONOHUE replied yes.

CHAIR SEEKINS asked whether the final version of the contract is still subject to legislative ratification.

MR. DONOHUE replied yes.

[1:58:40 PM](#)

SENATOR BUNDE noted that ratification happens at the very end of the process.

MR. DONOHUE agreed.

[1:59:52 PM](#)

SENATOR DYSON referenced Section 3 on page 3, and asked if it means that the commissioner can change oil taxes that are already established in statute.

MR. DONOHUE replied yes.

SENATOR DYSON asked how long that provision has been in the amendment.

MR. DONOHUE said it has been there for a couple of months and directed him to the appendix I version.

[2:01:52 PM](#)

Paragraph (2) of Section 3, line 7, makes this subsection conform to the rest of the changes proposed to AS 43.82.220.

Paragraph (6), line 19, repeals the terms and conditions for administrative termination of a contract under AS 43.82.445. That has been replaced with a purely contractual procedure (Article 28 and Article 5).

MR. DONOHUE continued to paragraph (7), line 21, which broadens the commissioner's authority, providing greater flexibility and less technical density than in the long-form SGDA conforming amendments bill in appendix I.

[2:05:30 PM](#)

SENATOR ELTON said his understanding is that the language in paragraph (7) is not needed for anything in the contract now, but is inserted in the Stranded Gas Development Act in case additional changes are made between now and the time it is presented to the legislature.

MR. DONOHUE replied that it is intended to substitute for a "laundry list" of paragraphs that do reflect articles and provisions in the current fiscal contract. It also provides flexibility in case other changes are necessary.

[2:06:22 PM](#)

Section 4, page 3, proposes a new subsection (b) to 43.82.200. It relates to Article 26 of the fiscal contract, exhibit C and provides mandatory dispute resolution procedures.

[2:07:54 PM](#)

CHAIR SEEKINS asked Mr. Donohue to describe the state's sovereign immunity.

MR. DONOHUE answered that sovereign immunity is a common-law concept going back to the sovereigns of England. It originally meant that you could not sue the king, but changed eventually so that you could sue him in a special court of equity. It has evolved into a doctrine that says the legislature can define those actions that can be brought against the state by citizens.

[2:10:07 PM](#)

CHAIR SEEKINS asked if, by waiving our sovereign immunity, we are allowing someone to sue the state on issues related to the contract.

MR. DONOHUE replied no, that it relates only to the producers' rights to sue the state if it fails to pay an arbitration award. If an award is unpaid 365 days after an attempt to collect in the State of Alaska, the producers can file the award as a judgment in another state and pursue the state's assets to satisfy the judgment.

CHAIR SEEKINS asked Mr. Donohue to confirm that waiving the state's sovereign immunity is a different thing from giving up the state's sovereignty.

MR. DONOHUE replied that it is different.

MR. JARDELL interjected that, every time the state allows itself to be sued, it technically waives its sovereignty.

MR. DONOHUE continued with Section 5, page 4, amending 43.82.210(a). These changes are part of a pattern to make it clear that oil fiscal certainty can be considered and proposed in a contract and submitted to the legislature for final review and authorization.

[2:11:02 PM](#)

He said Section 6, page 4, amends 43.82.220(a) to clarify that, in the event of a conflict, the provisions of the fiscal contract preempt the conflicting provisions in oil and gas lease or unit agreements.

He pointed to the article [Article 23] in the current contract that relates to Point Thomson, as an example of a potential conflict.

[2:12:45 PM](#)

SENATOR DYSON asked if this provision applies only to SGDA applications that met the deadline a year or two ago.

MR. DONOHUE said yes, with few exceptions, the proposed amendments would be retroactive to the beginning of the application process January 1, 2004. If this contract is not approved however, then these will be the new standards going forward and the legislature will have to amend this act to create a new filing deadline.

[2:14:15 PM](#)

Senator Wagoner commented that will be true only if the new contract is negotiated under the Stranded Gas Development Act.

MR. DONOHUE agreed.

[2:15:57 PM](#)

MR. DONOHUE explained that page 5 contains further amendments to 43.82.220(a), which reflect a move away from long-term purchase and sales agreements. Instead, the state is making a shipping

commitment for 20 percent of the gas, the combined total of RIK and PTP.

[2:17:13 PM](#)

Paragraph (2), line 18, makes it clear that the provisions of the fiscal contract dealing with some of the upstream cost allowances the state has agreed to pay, and which are not allowed under statute or in the oil and gas lease agreements, will be authorized.

[2:18:52 PM](#)

MR. DONOHUE said that Section 7 broadens 43.82.220(c) to deal with more than just Royalty issues.

Section 8 adds a new subsection (e) that says decisions related to taking royalty gas in-kind are not subject to the provisions of AS 38.

[2:20:10 PM](#)

Section 9 amends language in AS 43.82.250 related to the term of the contract, but the underlying term limit is still 35 years and may not exceed 45 years from the effective date.

SENATOR HOFFMAN arrived at [2:21:22 PM](#).

MR. DONOHUE continued to Section 10, page 6, which is intended to make the actual operation of the work commitments article consistent with the underlying statute.

Section 11 adds a new section 43.82.437, which authorizes a type of collateral agreement called a coordinating arrangement, that would tie the overall fiscal agreement with qualified sponsors who are the production subsidiaries, to the parent organizations and the affiliates that will actually implement the project.

[2:24:00 PM](#)

This section also deals with the establishment of Alaska Pipeline Corporation (a.k.a. Alaska Pipe, PipeCo, AK Pipe), a public corporation that would finance and own various parts of the project. In order to make the corporation effective immediately, it authorizes a modified quorum rule allowing the two commissioner members to act on behalf of the board for the first 120 days.

[2:26:19 PM](#)

SENATOR SEEKINS asked who the commissioner members are.

MR. DONOHUE responded that they are the Commissioner of Revenue and the Commissioner of Transportation and Public Facilities. Five public members are provided for in the legislation and, as they are appointed, will have an equal vote.

[2:26:50 PM](#)

SENATOR ELTON quoted a portion of Section 43.82.437, subsection (a), page 6, beginning on line 20, which reads:

The Commissioner of Revenue, with the concurrence of the Commissioner of Natural Resources, may negotiate collateral agreements.

He asked if that means the Commissioner of Natural Resources must concur to negotiate, or must concur in the agreement reached by the Commissioner of Revenue.

MR. DONOHUE replied that this relates to agreements between the state and any other entity, unlike subsection (b), which refers to agreements between a public corporation and other entities. So, the answer is that the Commissioner of Natural Resources would have to concur with any agreement reached as a result of negotiations.

[2:28:05 PM](#)

JIM BALDWIN, Counsel to the Attorney General's Office, explained that Section 12, page 7, gives the parties to the contract assurance that municipal taxes and assessments can continue to be paid directly to the municipalities.

[2:29:24 PM](#)

Section 13 provides for the accounting and custody of impact payments amounting to \$125 million.

Section 14 establishes a "Grant Fund", which is an account in the General Fund, to receive those monies. Subsection (e), page 9, lines 6-10, outlines the purposes for which grants can be made.

Section 15 extends the life of the Municipal Advisory Group to cover the period throughout which grant funds will be made available.

Section 16 was discussed earlier.

[2:32:36 PM](#)

MR. BALDWIN said that Section 17 makes it clear that arbitrations within the state are provided for under the Alaska Uniform Arbitration Act, but carves out an exception for arbitrations that are authorized under the SGDA.

Section 18 repeals AS 43.82.445.

Section 19 is a technical change correcting the section heading of 43.82.220.

MR. BALDWIN went on to Section 20, page 10, which provides that Sections 1-12, 15, 16, and 18 of this act are retroactive to January 1, 2004, and that Section 17 is retroactive to January 1, 2005.

Section 21 makes this act effective immediately.

[2:33:58 PM](#)

SENATOR ELTON went back to Section 14, page 8, lines 20-21, which says that the department "shall adopt regulations under which economically affected municipalities and nonprofit organizations may apply for and be eligible to receive grants". He said that "nonprofit organizations" is not defined in the definition section, and wondered if it is defined elsewhere in law.

[2:34:40 PM](#)

MR. BALDWIN replied that the intention is to make eligible those nonprofit organizations that act in a quasi-municipal capacity in the unorganized borough. There are such organizations and the state contracts with them regularly, so the intention is not to write a particular region out of the state out of getting an impact grant provided they can document a sufficient impact.

SENATOR ELTON noted that Mr. Baldwin is talking about a subset of nonprofit organizations that provides quasi-governmental duties, and asked if there is a reason the language of the bill does not speak to that subset rather than the broader category of nonprofits.

MR. BALDWIN replied that he thinks it would be beneficial to amend the language to make that clearer and offered to help with that.

[2:36:28 PM](#)

SENATOR BEN STEVENS pointed out that on page 9, lines 5-6 specifically identify "nonprofit organizations serving the unorganized borough".

[2:37:00 PM](#)

SENATOR WILKEN directed Mr. Baldwin's attention to page 7, lines 29-31, which amend the term "revenue-affected municipality" to read "economically affected municipalities", and asked if there is a difference between those terms.

MR. BALDWIN replied that the terms are defined in the Stranded Gas Development Act. He said that a "revenue-affected municipality" can also be "economically affected", but the reverse may not be true.

SENATOR WILKEN then directed him to page 8, line 24 and asked if any thought has been given to defining the phrase "direct or severe impact".

MR. BALDWIN answered that he hoped it would be further defined in regulation.

SENATOR WILKEN asked if it would be appropriate to add a requirement into the bill that a definition of the phrase be included in the regulations.

MR. BALDWIN answered that would be a policy call.

[2:39:35 PM](#)

SENATOR WILKEN asked Mr. Baldwin how the process described in subsection (e), page 9, lines 2-14, would work. He said it appears that the grant request would be submitted in a report to the legislature during the first 10 days of the session, and then go through the department to the municipal action group, which would advise the commissioner whether the request is appropriate. He asked if that is correct.

MR. BALDWIN responded yes, the relevant Municipal Advisory Group makes a recommendation that the proposed expenditure meets the needs of the section.

SENATOR WILKEN asked where the report due to the legislature is addressed.

MR. BALDWIN directed him to subsection (d) on page 8, line 27.

SENATOR WILKEN asked if the grant request first surfaces in the first 10 days of every session.

CHAIR SEEKINS said that he thinks the legislature gets a report of where grants have been given.

MR. BALDWIN confirmed that the report is submitted to the legislature after the fact.

SENATOR WILKEN questioned the language on page 8, lines 29-30 which reads "a list of all municipalities and organizations determined by the department to be eligible for further grants".

MR. BALDWIN responded that the report includes a list of meritorious requests that were not funded due to a shortfall.

[2:41:29 PM](#)

SENATOR WILKEN asked if the committee could get a step-by-step description of how the grant process works, including how decisions are made regarding impacts.

[2:42:36 PM](#)

SENATOR HOFFMAN asked why page 9, subsection (f), restricts the use of grants to retire municipal debt.

MR. BALDWIN said that it is a policy call, but the rationale behind it is that it does not further the public interest to incur new debt to pay preexisting debt. Grants should be used to cover new impacts, but obligations initiated after the beginning of the grant program might be covered at the discretion of the legislature.

SENATOR HOFFMAN countered that the language seems to prohibit both previous and future debt.

MR. BALDWIN agreed, but said that the language is modeled on an existing grant program in response to the request of the Municipal Advisory Group. He reiterated that it is open to policy determination by the legislature.

[2:45:11 PM](#)

SENATOR WILKEN said the total amount of grant money available over 6 years is \$125 million, and if it were used to cover existing municipal debt, it would be eaten up very quickly.

At ease from [2:45:58 PM](#) to [2:55:24 PM](#)

[2:56:30 PM](#)

SENATOR WILKEN directed Mr. Baldwin to a handout [Chapter 82. Alaska Stranded Gas Development Act], Section 43.82.520, subsection (b), paragraph (1), which reads "the share of payments to revenue-affected municipalities should be given priority over payments to economically-affected municipalities with due regard to the anticipated size of the tax base", and asked if he could explain the differences between the two types of municipality.

[2:58:19 PM](#)

STEVEN B. PORTER, Deputy Commissioner, Department of Revenue, responded that economically-affected refers to unexpected impacts to the communities during the construction phase, when there is no revenue being generated. These are the impacts addressed by the \$125 million impact funds in the contract. Revenue-affected communities are those that have taxing authority.

SENATOR WILKEN thanked Mr. Porter for his explanation and asked whether he could provide it in writing.

MR. PORTER said that he would have the lawyers elaborate on his explanation.

CHAIR SEEKINS said that SB 2003 and SB 2004 will be open for public testimony over the weekend, so he would close discussion on SB 2004 for now and open discussion on the PipeCo bill, SB 2003.

He asked whether the members of the committee would like to hear from anyone in particular on these matters when they return after the weekend.

[3:01:25 PM](#)

SENATOR WAGONER requested that the Chair ask Legal Services to have Jack Chenoweth review the document and report back to the committee on Friday.

SENATOR ELTON suggested that the Chair ask Kevin Ritchie, Executive Director of the Alaska Municipal League (AML), to provide the committee with the municipalities' reaction to some of the provisions.

MR. PORTER said that Steve Thompson, Chair of the Municipal Advisory Board, might be willing to attend or to send a representative.

SENATOR OLSON suggested that the Chair invite Kathy Wasserman.

CHAIR SEEKINS Closed discussion on SB 2004.

[3:04:13 PM](#)

SB 2003-NATURAL GAS PIPELINE CORPORATION

CHAIR SEEKINS opened SB 2003 for discussion.

STEVEN B. PORTER, Deputy Commissioner, Department of Revenue, offered an overview of the bill and introduced Louisiana W. Cutler to provide a detailed analysis.

He said that the general intent of the legislation is threefold: to hold the state's equity interest in the natural gas pipeline project, to finance that project through revenue bonds or other forms, and to participate as an active member in the corporation that is formed to build the pipeline.

The state is a participant in this project with private corporations that expect to partner with other private corporations, so SB 2003 attempts to create a public entity with as many private attributes as possible. It needs to be both stable and independent, so the board comprises only two commissioners and five public members who are appointed for 6-year terms.

[3:07:16 PM](#)

Because the private corporation will sometimes have to make decisions quickly and cannot necessarily comply with certain Open Meetings Act (OMA) requirements, it is exempt from the OMA. As a public entity, the corporation will be subject to the Public Records Act, but because it is dealing with private corporations that are used to a certain level of confidentiality, the legislation specifies that certain types of information will remain confidential.

In order to provide the state's partners with the assurance of long-term stability, the statute includes a provision to allow the corporation to negotiate terms of performance obligations. For example, if there is a material adverse change to the former structure of the corporation that affects its ability to perform its obligations under the contract, there are certain damages or changes that could be made by contract.

[3:10:15 PM](#)

MR. PORTER explained that another provision addresses indemnification and exempts the corporation from AS 45.45.900 and any common-law document that provides that indemnification agreements in construction contracts are against public policy.

[3:12:23 PM](#)

How the financing would occur has been dealt with in Section 7 of the fiscal interest finding and the attached finance plan.

[3:13:02 PM](#)

The pipeline is routed through Canada and a subsidiary in Canada may need to have a different legal structure, so the bill allows Alaska Natural Gas Pipeline Corporation, (a.k.a. PipeCo, Alaska Pipe, or AK Pipe), to create subsidiary entities as needed.

[3:13:45 PM](#)

SENATOR WAGONER asked if the administration had looked at merging PipeCo and Alaska Natural Gas Development Authority (ANGDA) into the same basic structure.

MR. PORTER responded that the administration spent quite a bit of time evaluating that, but the spur line that ANGDA is lead on is itself a Mega Project, and one entity cannot manage both projects effectively.

[3:16:02 PM](#)

LOUISIANA W. CUTLER, Partner, Preston Gates & Ellis, provided an abbreviated section-by-section analysis.

Section 1 lays out the findings of the legislature for the establishment of the public corporation. She highlighted the following findings:

Findings (1) and (2), point out that the corporation is implementing the purposes provided in Article 8 of the Constitution.

Finding (9) says that it is in the state's best interest to take an ownership interest in the pipeline and to participate in financing and construction of the project.

[3:19:55 PM](#)

Section 2, page 4, amends AS 41 by adding a new chapter that establishes the corporation as a public corporation within the Department of Revenue, but with a legal existence independent

and separate, so that the liabilities of the corporation do not become the liabilities of the state.

[3:21:18 PM](#)

The dissolution Section 41.42.015, page 4, beginning at line 19, is pretty typical language for the creation of a public corporation, except that this corporation has the power not only to issue bonds, but also to enter into other types of financing arrangements, such as loans. Subsections (b) and (c) specify that no member of the board or officer of the corporation is entitled to a share of the corporate assets.

[3:22:26 PM](#)

SENATOR BUNDE asked if appointments to the governing body are subject to legislative confirmation.

MS. CUTLER replied that the administration suggested that no legislative confirmation be required, but that it is a policy call. She pointed out that the commissioners of Alaska Housing Finance Corporation (AHFC), Alaska Industrial Development Authority (AIDA), and the Alaska Permanent Fund Corporation (PFC) are not subject to confirmation either. Legislative confirmation is only required for commissioners of ANGDA and for the railroad.

[3:23:19 PM](#)

SENATOR BUNDE asked whether the public members referenced in subsection (c) would serve staggered terms.

MS. CUTLER replied yes.

SENATOR BUNDE suggested to the Chair that the committee look further into requiring legislative confirmation.

CHAIR SEEKINS recalled that members of the board of the PFC are insulated from being fired except for cause, and asked whether that is written into this legislation.

MS. CUTLER responded that it is provided for in the section that deals with removal and vacancies on page six, beginning at line 22. The intent of the provision is to ensure that the corporation operates as independently and apolitically as possible.

[3:24:50 PM](#)

SENATOR ELTON jumped back to Section 1, subparagraph (B), page 2, line 28, and asked if there is anything in this bill limiting

state participation in financing to only the state's equity share.

MR. PORTER replied that he does not know of anything that would limit its level of participation.

[3:26:18 PM](#)

MS. CUTLER proceeded to Section 41.42.020 on page 4, line 29, which determines the composition of the board and the types of expertise required in its members.

[3:28:07 PM](#)

SENATOR HOFFMAN asked if the members have to be Alaskans.

MS. CUTLER replied no.

[3:29:22 PM](#)

SENATOR WILKEN asked whether the language in subparagraph (A), page 5, line 3, precludes a city counsel or borough assemblyperson from serving on the board.

MS. CUTLER replied that it is not intended to do so, but agreed that it is ambiguous and might need correction.

[3:30:23 PM](#)

REPRESENTATIVE NANCY DAHLSTROM asked whether board members could be Canadians.

MS. CUTLER replied that the bill contains no residency requirements.

[3:31:33 PM](#)

MS. CUTLER reminded the committee that, as Mr. Porter indicated, this corporation's need to hold meetings might be different from other public corporations. Section 41.42.030 on page 5, line 25, provides for meetings "at the call of its chair" and exempts these meetings from the specific notice requirements provided for in AS 44.62.310-44.62.312 Open Meetings Act.

[3:33:44 PM](#)

SENATOR ELTON noted that in subsection (d) of this section, it requires the board to have only one public meeting per year, and if the intent is for the board do as much as possible in public, that direction to the board does not seem appropriate.

MR. PORTER replied that the intent is to have at least one public meeting a year, although the administration would be open to more than that.

[3:35:12 PM](#)

SENATOR BUNDE asked if the board is required to report to the legislature.

MS. CUTLER answered yes.

[3:35:30 PM](#)

CHAIR SEEKINS pointed out that all of the meetings of the PFC Board of Trustees are public and, if there is reason to do so, they dismiss into executive session. He asked why that model would not work for PipeCo.

MR. PORTER replied that the PFC model is good for regular quarterly meetings, but the board needs the flexibility to meet quickly if necessary and might not have time for public notice.

CHAIR SEEKINS asked why subsection (b), page 5, lines 11-14, provides for a member to designate a deputy or assistant commissioner to act for him.

MR. PORTER explained that it is common for commissioners to designate a deputy commissioner to act on their behalf, because they participate in so many corporations that meetings may conflict.

[3:37:56 PM](#)

SENATOR WILKEN said that he is concerned about teleconferenced meetings in which voting might take place on important issues. He reminded the committee of the problems created last year when the retirement board made some multi-million dollar decisions by teleconference. He wondered whether it would be wiser to require physical attendance for votes on issues of major importance.

MR. PORTER suggested that this be handled in internal policy rather than in statute. He also pointed out that decisions will be made by the board in concert with the other owners and are likely to have been considered in depth by the time a vote is taken.

SENATOR WILKEN asked Chair Seekins to flag this issue for further discussion.

[3:40:53 PM](#)

MS. CUTLER added that many public corporations do conduct business by teleconference.

She also explained that, regarding public meetings versus the requirements of the OMA, she did not mean that there would not be public meetings conducted, but that the specific notice requirements of the OMA for having meetings would not apply.

[3:42:44 PM](#)

SENATOR OLSON asked whether the board members would be compensated for attending meetings via teleconference.

MS. CUTLER answered yes.

[3:43:20 PM](#)

SENATOR BUNDE said that they should not qualify for per diem if they are attending by teleconference.

MS. CUTLER responded that it is the legislature's call.

SENATOR BUNDE asked if the Chair would flag this issue for future discussion.

MS. CUTLER said that the way the PipeCo board members would qualify for per diem for meetings is specified under AS 39.20.180 and is the same as for every other meeting.

[3:43:45 PM](#)

SENATOR BEN STEVENS asked Ms. Cutler whether this corporation would be operating under the Sarbanes-Oxley Act.

MS. CUTLER said she believes that it would not, but will double check.

SENATOR OLSON referred back to Senator Bunde's question about per diem, and asked if the \$400 compensation [Section 41.42.040, page 6] is actually per diem.

SENATOR BUNDE said that there is per diem and a \$400 honorarium and that, in his earlier question, he was actually referring to the honorarium.

MS. CUTLER said that she did interpret his question that way, and directed the committee to page 6, lines 7-8, which read in part, "A public member of the board is entitled to receive an honorarium of \$400 for each day or portion of a day spent at a meeting of the board". She said she thinks that a member would

qualify for the honorarium whether he attended by teleconference or not.

SENATOR BEN STEVENS said that the requirements of the Sarbanes-Oxley Act are onerous, and the committee needs to be sure whether or not the state will be subject to it.

MS. CUTLER responded that she believed PipeCo would not be subject to Sarbanes-Oxley, but she would verify that and get back to the committee.

[3:46:03 PM](#)

MS. CUTLER resumed her analysis at Section 41.42.035, page 6, lines 1-5. She said that this provision is typical and requires the board to provide copies of its minutes to the governor and Legislative Budget and Audit Committee (LB&A). Minutes shall be made available to the public after redacting any confidential information.

Section 41.42.040 on compensation and per diem was covered in earlier conversations.

[3:47:32 PM](#)

MS. CUTLER pointed out that the "for cause" standard in Section 41.42.045 on removal and vacancies is not always in the public corporation model.

Section 41.42.050 allows the board to delegate supervision of the administration to the executive director. She directed the committee's attention to the last sentence in that section, which reads, "The board may delegate to its executive director, officers, and agents of the corporation such powers and duties as it considers necessary or desirable." and explained that this is included in the interest of giving the corporation as much flexibility as possible.

[3:49:23 PM](#)

CHAIR SEEKINS asked whether this language would give that person plenipotentiary power to obligate the LLC without board approval.

MS. CUTLER replied no. The board may delegate such powers and duties as it determines are necessary and desirable.

CHAIR SEEKINS asked whether the board could conceivably give that person the power to act to approve a contract without full board approval.

MS. CUTLER answered that it could, but the intent is to provide for smooth operations.

[3:52:15 PM](#)

She agreed that the language is broad and the legislature may want to look at it more closely.

MR. PORTER added that he cannot think of a situation in which a board would want to delegate that much authority to an individual, but they could.

CHAIR SEEKINS said that he is reminded of the caution Senator Wilken brought up earlier about a board that may not have been operating in a particularly responsible fashion.

MS. CUTLER went on to Section 41.42.060, page 7, which requires the board to employ an executive director who can employ staff. Again, this provision is fairly typical.

Section 41.42.070 provides that the attorney general is the legal counsel for the corporation. It does not preclude the use of outside counsel.

[3:54:33 PM](#)

SENATOR ELTON said he is a little bothered by the word "shall" in that section, on line 28. He asked what would happen if the corporation seeks counsel on a permitting question, for example, and the attorney general is already representing the permitting entity.

[3:55:23 PM](#)

MS. CUTLER replied that it happens frequently, and the Alaska Bar Association has published an opinion that specifically deals with it. They have stated that the Department of Law is just like any other big law firm and that they are able to set up walls to deal with potential conflicts such as this.

[3:56:57 PM](#)

Section 41.42.080, page 7, provides that the board is subject to the conflict of interest law and that certain disclosures are required if they have any interest in an entity that does business with Alaska Pipe, or an owner-entity of the project.

[3:57:28 PM](#)

MR. CUTLER said that Section 41.42.200, page 8, just repeats the purpose of the corporation.

Section 41.42.210 enumerates the powers of the corporation, most of which are common to public corporation models in other state statutes. She went on to explain the points in which this section may not be typical.

Paragraph (7), page 8, line 29, allows the corporation "to issue bonds or incur other financing obligations to carry out any of its corporate purposes and powers". Often, corporations are allowed only to issue bonds, but the expectation in this case is that there will be multiple financing arrangements necessary.

[3:58:55 PM](#)

Paragraph (8), page 9, lines 3-7, provides that the corporation can obtain any ownership interest required for the project, in any way that it needs to.

Paragraph (11), lines 16-20, allows the corporation broad powers to carry out its corporate purposes including owning, constructing, managing or operating the project.

Paragraph (16) provides the power to enter into and perform its obligations under contracts or other transactions with any government or private organization. Subparagraph (D) is specifically written to deal with a situation in which the LLC itself may end up spinning off an entity to facilitate financing.

[4:01:23 PM](#)

SENATOR BUNDE asked if revenues earned by the LLC or PipeCo flow directly to the General Fund or go through the LLC.

MS. CUTLER replied that the LLC would pay dividends to Alaska Pipe. Those could go into the General Fund and be appropriated back out as program receipts, or be made "directly to any person specified by the corporation" (paragraph (23), page 11).

SENATOR BUNDE said that sounds almost like the power of appropriation, and asked the Chair to flag the section for further discussion.

MS. CUTLER said that there are currently bond issuances that work this way.

CHAIR SEEKINS asked Mr. Porter if he could get someone from the bond department to comment on that.

MR. PORTER said he certainly could. He continued to say that it is common for revenues that come back out of the stream to pay off the bonds prior to the remainder going to the dividend stream into the General Fund.

SENATOR BUNDE said it seems as if the LLC should have a budget and the legislature should fund the budget.

MR. PORTER said that the operating budget would be subject to appropriation. This section is focused on paying other issues such as financing.

[4:05:25 PM](#)

MS. CUTLER commented that Alaska Pipe is not itself the LLC. Alaska Pipe will hold the state's membership interest in the LLC along with the producers' affiliates; but eventually there will be a dividend stream from the LLC, which will flow back to its members.

CHAIR SEEKINS said that the revenue would probably go first to pay bond indebtedness and then to the General Fund, and asked Senator Bunde if he preferred that the bonds be paid from the General Fund.

[4:06:38 PM](#)

SENATOR BUNDE replied that it needs further exploration. The bonding requirements might call for a more direct flow of funds.

MS. CUTLER said that the court has recognized an exception for payment of bond debt [Alaska Constitution, Article IX, Section 11], so this isn't an unusual practice. The legislation specifically applies AS 37.07 to the operating budget in Section 41.40.410, and also specifically provides, in Section 41.42.440, paragraph (2), line 26, that the program receipts section does apply to the corporation.

SENATOR BUNDE said that, when the legislature approves a bill that has program receipts in it, it is approving the fiscal note as well. It sounds as if these program receipts would not come before the legislature for approval.

[4:08:11 PM](#)

MR. PORTER asked Senator Bunde to turn to Section 41.42.410 on page 19, line 15, where it states that the corporation is subject to the provisions of AS 37.07 for its operating budget. The intent is for the corporation to come to the legislature for approval of the operating budget. The only question is whether

the bondholders get paid directly, before the money flows through the General Fund.

[4:08:32 PM](#) break [4:25:27 PM](#)

CHAIR SEEKINS said that they would consider amendments to this bill after public testimony is heard over the weekend.

MS. CUTLER jumped to page 10, paragraphs (19) and (20). She said that these two provisions are not always identified separately in public corporation statutes lists of powers, but have been singled out here in order to make sure that this corporation has all of the powers it needs. It can enter into indemnification agreements against its own assets, not against state assets.

[4:27:44 PM](#)

It can also enter into confidentiality agreements with its LLC and other partners.

[4:28:09 PM](#)

MS. CUTLER said that the stability of Alaska Pipe is of critical importance to both the administration and the LLC members. Because the public process is different from that of a private corporation, there is a concern that its governing structure be very stable and that it be able to meet its large financial obligations.

This power gives Alaska Pipe the express authority to agree (in the LLC agreement) that it would lose some voting rights, or have its access to confidential information curtailed if a statute is passed by the legislature that has a "material adverse effect on" Alaska Pipe's ability to perform its obligations to the LLC, or to another entity that owns a portion of the project.

She stressed that the corporation could not agree to limit the legislature's authority to exercise any form of police powers, and that this provision would not apply if a statutory change came about as the result of an initiative, or in response to a final, non-appealable court order.

CHAIR SEEKINS asked what assets PipeCo owns that would be at risk.

[4:31:32 PM](#)

MR. PORTER responded that, in terms of this provision, it is its ability to participate effectively in future decision making that is at risk.

[4:31:49 PM](#)

CHAIR SEEKINS asked Mr. Porter to step back to paragraph (19) and explain what PipeCo is indemnifying, and what it is putting up against indemnification.

[4:32:52 PM](#)

MS. CUTLER said that PipeCo could agree to indemnify against its own assets. It could not agree to indemnify against the other assets of the state.

CHAIR SEEKINS responded that he is trying to identify those assets.

MR. PORTER said that he wanted to explain the circumstances under which this might occur and offered an example.

CHAIR SEEKINS asked whether it should be made clear in statute that the state's assets could not be used.

[4:34:43 PM](#)

MS. CUTLER said it would be helpful to move forward to Sections 12-13, page 27, which also address indemnification. She said that the current rule is that, with respect to a construction contract, you cannot indemnify the operator against liability for damages. This provision makes an exception to that rule for this project.

[4:38:16 PM](#)

On a project of this magnitude, it is inevitable that mistakes will occur and will have to be covered in some way. This section allows the members to take the liability upon themselves rather than paying the operators to bear that burden.

MS. CUTLER returned to the powers clause, Section 41.42.210, page 10, which gives the overall power to the corporation to enter into indemnification agreements. The specific agreement that it will have to enter into is with the operators that will build the pipeline.

CHAIR SEEKINS asked Ms. Cutler to confirm that there is no indemnification for sole negligence or willful misconduct.

[4:39:07 PM](#)

MS. CUTLER said that the legislation does allow for it. It does not anticipate covering gross negligence or misconduct for officers, but the line employees would be indemnified. She reiterated that with thousands of employees working on the project, such problems may occur and someone has to pay for it.

[4:40:27 PM](#)

SENATOR GREEN said that, as she understands it, each of the partners would be self-insured, but the liability of the state would still be limited to its 20 percent ownership.

MS. CUTLER agreed and added that it would be limited to the assets of Alaska Pipe.

[4:41:10 PM](#)

She moved on to Section 41.42.220 on page 11, line 17, regarding the creation of subsidiary entities. This section gives Alaska Pipe the flexibility to create subsidiaries according to the laws of the jurisdiction in which they are formed in order to finance, own, or operate some portions of the project.

The Alaska Pipeline Corporation board would determine what assets the subsidiaries would own and what powers they would have. The members of the subsidiary boards would serve at the pleasure of the Alaska Pipe board.

She emphasized that the subsidiaries cannot do anything that is not consistent with the purposes of the chapter.

[4:45:50 PM](#)

MR. PORTER interjected that, in the section regarding material adverse effects on page 11, paragraph (22), the legislation excepts a statutory change made by initiative or in response to a non-appealable court order. He asked the committee to consider amending that section to remove the exception for changes made by initiative, and pointed out that it makes no difference to our partners whether a change is made through the people's elected representatives or by initiative, if the effect is to make it impossible for the corporation to perform its obligations under the contract, so the ability to restrict our interests should be the same.

The difficulty is to protect the initiative process without limiting the state's authority to exercise. One way to approach it might be to move the reference to the initiative process to the last part of paragraph (22) so that it says "the corporation may not agree to any terms that attempt to limit the initiative

process or the legislature's authority to exercise police powers of the state".

[4:48:34 PM](#)

MS. CUTLER moved on to Article 3. Financial Provisions, on page 12. She said that this section is a typical bonding authority except that it also allows the corporation to borrow money and incur other financing obligations. It is the notion that Alaska Pipe will obtain commercial loans that led the state's financial advisers to suggest broadening this section.

She referred the committee to page 22, line 28, for the definition of "financing obligations".

Subsection (d), page 16, lines 10-14 is a very typical feature referred to as the "moral obligation" section. It says that, at the end of the year, if the reserve fund set up to pay off the bond issue is low the legislature may choose to appropriate the funds. This gives the bond market additional comfort that the legislature may bail the corporation out if necessary.

[4:53:48 PM](#)

Article 4 begins on page 19 with the cash reserves fund, which is established in the corporation to accept legislative appropriations, other assets, and cash from other sources. The funds can be pledged to the payment of bonds, used to secure a line of credit, to meet capital calls, or for other financial requirements of the corporation. Withdrawals must be reported to the governor and the legislature.

Section 41.42.410 was discussed earlier.

The Political Activities section 41.42.420 is important with respect to the tax-exempt status of the corporation under state law. The definition of political activities is found in Section 41.42.900, paragraph (7), subparagraph (A) on page 23.

[4:55:47 PM](#)

SENATOR BUNDE asked why [in Section 41.42.430] there is an exemption from the State Procurement Code.

MR. PORTER replied that, as a member of the LLC, the corporation is making decisions as part of a broader ownership team that is not subject to the procurement code.

[4:56:46 PM](#)

MS. CUTLER resumed on Section 41.42.440, page 19, which provides that the operations of the corporation are not subject to certain laws, and offered a brief explanation of each of the laws listed in the section.

[5:01:18 PM](#)

Article 5, Section 41.42.500, page 20, requires that the corporation provide quarterly financial statements to LB&A, and allows LB&A to conduct audits of Alaska Pipe and any entities wholly owned by Alaska Pipe.

Section 41.42.510 requires that the legislature, the governor, and the public, receive an annual report written in easily understandable English. A summary of the report must be published in at least one newspaper in each judicial district and made available to the public on the Internet.

[5:03:37 PM](#)

Section 41.42.520 on page 21 deals with the Public Records Act. It provides that Alaska Pipe is subject to the act except that, in addition to any of the current exemptions under AS 40.25.110 and 40.25.120, the explicit types of information listed in this section are not subject to disclosure under those statutes.

[5:06:44 PM](#)

MS. CUTLER continued that lines 27-29 make it clear that information that is considered confidential under this section may be disclosed to the governor, the legislature, or a legislative committee.

[5:07:11 PM](#)

SENATOR ELTON prefaced his question by saying that the language on page 21, lines 14-16 seems too broad. It appears to allow the corporation to make an agreement with an owner or entity to keep anything confidential, even something that is embarrassing, or a bad action that was corrected. He asked Ms. Cutler if that is correct.

MS. CUTLER replied that, although it could be read that way, and it does not expressly say that you cannot keep something confidential to avoid embarrassment, the intent of the provision is to make it clear that language that will be in the LLC agreement regarding confidentiality remains confidential.

[5:10:40 PM](#)

SENATOR ELTON commented that this section contains six paragraphs that deal with trade secrets, proprietary information

and information that would effect the competitive position. It seems as if the things that could be hurtful to another entity are covered in the other paragraphs and that paragraph (4) is unnecessarily broad.

MR. PORTER said that the state and the producers come from two different worlds. The state is in a world where information is public unless specifically identified as confidential. In a private corporation, information is confidential unless specifically identified as public. The administration is trying to wed those two viewpoints in the LLC, so that the other three entities don't exclude us from their communications, making us an ineffective fourth participant.

[5:12:10 PM](#)

SENATOR ELTON said that he understands how awkward that can be, but wondered if, for example, paragraph (4) would allow the corporation to have an agreement with another owner entity that would preclude the release of information on how many employees are Alaskan residents.

MR. PORTER said that particular issue is covered in the contractual provisions that protect it. It would be helpful to identify a scenario in which there is not another contractual protection right, but that Senator Elton is correct in concept.

[5:15:15 PM](#)

CHAIR SEEKINS said that the entities cannot hold any criminal activity confidential, or any activity that is required under federal or state law to be disclosed. He said that the committee is trying to reach a reasonable requirement for confidentiality, rather than looking for extremes.

MS. CUTLER wondered whether she went too quickly through subsection (c), because it specifically identifies circumstances in which confidential information may be disclosed, including: for the purposes of law enforcement; for a confidential briefing of the governor, legislature, or a legislative committee; in response to an administrative or court order; when required by lenders or potential lenders; and in the case of a public offering of bonds, if such disclosure is required by law or market practice and all owner entities are notified.

She reiterated that the administration is trying to find a good balance between confidentiality and public disclosure.

CHAIR SEEKINS suggested that on page 21, line 31, the word "and" should be changed to "or".

[5:15:45 PM](#)

MS. CUTLER commented that subsection (b), page 21, lines 21-24 expressly states that the Public Records Act does not apply to the LLC or any other owner entity. It applies to Alaska Pipe, but not to any of the private organizations that Alaska Pipe will become involved with.

[5:16:45 PM](#)

Section 41.42.530, page 22, specifies that the OMA does not apply to the meetings of the LLC or any other owner entity of the project.

[5:17:26 PM](#)

The definition of "unincorporated business association" was pulled out of Section 41.42.900 and is covered on page 24, paragraph (10) on lines 2-6. This was done primarily because the state does not know what type of entity will be required in Canada.

[5:19:32 PM](#)

Section 3 on page 24 is a conforming amendment regarding the procurement code exemption.

MS. CUTLER explained that Section 4 amends AS 37.10.085(a) to provide for a specific exemption, so there won't be any question that Alaska Pipe has the statutory authority to buy a membership interest in the project, lend its credit for the use of the corporation, or borrow money for the use of a corporation.

[5:20:49 PM](#)

Article 7 on page 25, establishes a construction loan fund in DOR. It allows the state to lend money to Alaska Pipe or to one of its subsidiaries instead of making a cash appropriation. Canadian counsel is particularly interested in this section, because it might make more sense with regard to taxes and other laws in Canada, for the state, rather than Alaska Pipe, to loan money to an Alaska Pipe subsidiary.

[5:22:17 PM](#)

SENATOR STEDMAN asked if this could lead to some form of fractured management, in terms of responsibility.

MR. PORTER responded that this is mainly a financing vehicle.

SENATOR STEDMAN said that the point of his comment is that we've had problems in the past because no one took responsibility for issues that arose. It is important that one entity be responsible.

CHAIR SEEKINS said it appears that the commissioner is acting as a banker.

MS. CUTLER agreed and added that it does not provide the commissioner with any additional management responsibilities aside from those he has as a member of the Alaska Pipe board.

CHAIR SEEKINS clarified that his responsibility would be to loan the money, establish the conditions, and collect it.

MS. CUTLER said that is correct.

[5:24:50 PM](#)

SENATOR ELTON asked if the commissioner could loan money, not only to PipeCo, but also to a private entity.

MS. CUTLER replied that the language allows for the state to loan money directly to a subsidiary entity.

CHAIR SEEKINS asked Ms. Cutler if he is correct in saying that no funds exist until there has been an appropriation by the legislature.

MS. CUTLER answered yes, that the state could also put other kinds of assets into the fund, just like they can in the cash reserve fund.

CHAIR SEEKINS asked if this is used to acquire the state's ownership in the pipeline, not someone else's.

MR. PORTER said it does not preclude financing another entity's ownership, but that it isn't anticipated.

SENATOR ELTON suggested that the committee flag this issue for further discussion.

MR. PORTER said he does not have a good understanding of exactly what the committee's concern is.

MS. CUTLER added that what it allows is acquisition and financing of an "ownership interest" in the project. She directed the committee to the definition of "ownership interest"

on page 23, lines 6-8, which read "an interest in the project acquired by either the corporation or a subsidiary entity," so the intent is clearly to finance the state's interests.

[5:28:56 PM](#)

Section 7, 39.25.110(11), page 26, puts employees of Alaska Pipe into the exempt service.

Sections 8-9 state that the executive director, the employees, and board members, must comply with the financial disclosure requirements.

Section 10 excludes the governing body of subsidiaries from the Ethics Act. It does not exclude Alaska Pipe board members, and would not exclude board members of subsidiaries if they were also board members of Alaska Pipe. This addresses the fact that Canada may have ethics rules that are different from ours.

Sections 11, 12, and 13 were discussed earlier.

[5:30:51 PM](#)

Section 14 provides for an immediate effective date.

MR. PORTER said that, if the committee assumes that this project is moving forward any time soon, this needs to be passed and the entity set up now in order to be ready by the time the contract is signed.

[5:32:09 PM](#)

SENATOR BUNDE commented that there is a substantial fiscal note and asked if the administration is suggesting that the legislature begin setting this up before the public comment period is over and before the legislature ratifies the contract.

MR. PORTER replied yes, regardless of what happens with the contract, the state needs a dedicated team to move the pipeline project forward, similar to what ANGDA is doing with the spur line.

He reminded the committee that \$1.5 million has already been funded to hire people for PipeCo, but the administration has waited to hire until an appropriate time. In particular, it wanted the board to be in place first, to choose its own executive director.

SENATOR BUNDE said that concerns him, because the contract is not guaranteed, and the only justification for moving forward is

that the administration has been working on the project for a couple of years. He wondered why the legislature should set up a bureaucracy to do what the administration is already doing.

[5:34:08 PM](#)

MR. PORTER replied that he and others have spent the past three years working on this project, putting in 12-13 hour days, working weekends and holidays, and frequently away from home. He feels strongly that it is time to hire a staff that is dedicated to this project, not working two jobs at one time, and who have the expertise to stand on an equal footing with the producers.

[5:35:49 PM](#)

SENATOR ELTON said that the fiscal note indicates that \$2.5 million will be required in fiscal year 2007, and attributes that to Alaska Pipeline Corporation receipts. His assumption is that, for the first two or three years, the receipts will be General Fund appropriations, so he wondered why the funds were not just identified as General Fund instead of Alaska Pipe Corp.

MR. PORTER replied that there are a couple of ways to approach it. One would be to allocate a portion of the approximately \$300 million appropriation to Alaska Housing Development Corporation, for purposes of handling this issue. There is also about \$4.8 million in ANGDA that needs to be moved over next year.

[5:37:10 PM](#)

SENATOR WAGONER asked if the other LLCs require that board members be Alaskan residents.

MS. CUTLER replied that AHFC imposes certain residency requirements, although she did not know specifically what they were, and the Alaska Railroad allows two members of the board to be non-residents. She thought that neither AIDA nor the PFC have residency requirements, but offered to get the board additional information on this matter.

[5:38:47 PM](#)

SENATOR BUNDE commented that it seems ironic that, while the state is leaning on the sponsors to hire Alaskans and insisting that the contractors hire Alaskans, it is not requiring that PipeCo do so.

MR. PORTER said that all of the people on his list of candidates for the board are residents, but that it might be wise to have a member from Canada on the team.

MS. CUTLER pointed out that, with respect to subsidiaries, regardless of how the legislature decides to approach the Alaska Pipe board in terms of residency requirements, it needs to keep in mind that there may be other legal requirements in Canada.

SENATOR OLSON suggested inviting someone from the North Slope Borough to testify before the committee.

[5:42:59 PM](#) Adjourned.