

HOUSE FINANCE COMMITTEE
May 10, 2007
2:27 P.M.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [2:27:20 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Richard Foster
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas Jr.

MEMBERS ABSENT

None

ALSO PRESENT

Representative Ralph Samuels; Representative Bob Roses;
Representative Bob Buch; Representative Mark Neuman;
Representative Anna Fairclough; Representative Paul Seaton;
Representative Beth Kerrttula; Representative Peggy Wilson;
Representative Mike Doogan; Representative Lindsey Holmes;
Senator Bill Wielechowski; Pat Galvin, Commissioner,
Department of Revenue

SUMMARY

HB 177 An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date.

CS HB 177 (FIN) was reported out of Committee with a "do pass" recommendation and with a new fiscal note by the Department of Natural Resources, zero note #1 by the Department of Administration, zero note #2 by the Department of Commerce, Community & Economic Development, zero note #3 by the Department of Natural Resources, fiscal note #5 by

the Department of Revenue, fiscal note #6 by the Office of the Governor, and fiscal note #7 by the Department of Labor & Workforce Development.

#SB27

CS SB 27(FIN)

An Act relating to eligibility requirements for medical assistance for certain children, pregnant women, disabled persons, and persons in medical or intermediate care facilities; and providing for an effective date.

CS SB 27 (FIN) was SCHEDULED but not HEARD.

[2:28:18 PM](#)

#HB177

HOUSE BILL NO. 177

An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date.

[2:28:54 PM](#)

Co-Chair Meyer stated a conflict of interest because he works for ConocoPhillips; he asked to be excused from the Committee voting process. Vice Chair Stoltze OBJECTED. Co-Chair Chenault stated that Co-Chair Meyer would be required to vote on amendments and the bill.

Representative Hawker disclosed that his wife was an employee at ConocoPhillips. He stated that he does not have a direct financial interest in the outcome of the legislation. He stated it would be inappropriate to be disenfranchised from voting given the interest within each district.

[2:30:55 PM](#)

Co-Chair Chenault MOVED to ADOPT AGIA 1, 25-GH1060\V.2, Bullock, 5/10/07. Representative Gara OBJECTED.

PAT GALVIN, COMMISSIONER, DEPARTMENT OF REVENUE, explained that the amendment clarifies that a State match would be in the form of a reimbursement. The licensee would make the expenditure and then submit a billing to the State for reimbursement.

Representative Gara WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 1 was adopted.

[2:32:34 PM](#)

Co-Chair Chenault MOVED to ADOPT AGIA 2, 25-GH1060\V.4, Bullock, 5/10/07. Representative Gara OBJECTED.

Commissioner Galvin noted that the amendment moves language on Page 19, Lines 26-28, regarding payments the State makes to a licensee in order to acquire products needed under the license. The description is more expansive.

Representative Gara WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 2 was adopted.

[2:35:19 PM](#)

Co-Chair Chenault MOVED to ADOPT AGIA 3, 25-GH1060\V.3, Bullock, 5/10/07. Vice Chair Stoltze OBJECTED.

Commissioner Galvin noted the amendment provides clarifying language regarding the date when a licensee receives their certificate to move through the judicial review process.

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 3 was adopted.

[2:36:41 PM](#)

Co-Chair Chenault MOVED to ADOPT AGIA 4. Vice Chair Stoltze OBJECTED.

Commissioner Galvin commented that the language would clarify the section dealing with modification references issued by the Alaska Oil and Gas Conservation Commission (AOGCC).

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 4 was adopted.

[2:37:56 PM](#)

Co-Chair Chenault MOVED to ADOPT AGIA 5. Vice Chair Stoltze OBJECTED.

Commissioner Galvin indicated that the amendment provides clarifying language, Page 16, Line 27, Subsection (d)(2), deleting "when and as issued" and inserting on Page 16, Line 27, "when and as".

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 5 was adopted.

[2:38:58 PM](#)

Co-Chair Chenault MOVED to ADOPT AGIA 6. Vice Chair Stoltze OBJECTED.

Commissioner Galvin advised that AGIA 6 was a technical amendment to Page 20, Line 20, deleting "inducement" and inserting "inducements".

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 6 was adopted.

[2:39:45 PM](#)

Co-Chair Chenault MOVED to ADOPT AGIA 7, #25-GH1060\V.5, Bullock, 5/10/07. Vice Chair Stoltze OBJECTED.

Commissioner Galvin explained that AGIA 7 provides clarifying language as it was recognized that TransCanada was potential applicant and language was added throughout the bill to define the certification process and add a singular definition of certificate.

Commissioner Galvin identified the need for a "friendly" amendment to AGIA 7, Page 2, Line 20, after the words "Alaska or" insert "an amendment to" and then again on Line 23, following "1976", delete remaining language.

Representative Nelson MOVED the amended language to AGIA 7 as requested by Commissioner Galvin. There being NO OBJECTION, AGIA 7 was amended.

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, amended AGIA 7 was adopted.

[2:43:11 PM](#)

Co-Chair Chenault MOVED to ADOPT AGIA 8, 25-GH1060\V.6, Bullock, 5/10/07. Vice Chair Stoltze OBJECTED.

Commissioner Galvin said that the changed language would address the Regulatory Commission of Alaska's involvement in the definition section of open season.

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 8 was adopted.

[2:44:27 PM](#)

Co-Chair Chenault MOVED to ADOPT AGIA 9, 25-GH1060\V.11, Bullock, 5/10/07. Vice Chair Stoltze OBJECTED.

Commissioner Galvin explained that AGIA 9 provides a series of language clean-ups and addresses the modification section. He explained that AGIA 10 would not be needed if AGIA 9 was passed.

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 9 was adopted.

[2:46:58 PM](#)

Co-Chair Chenault WITHDREW AGIA 10.

Co-Chair Chenault MOVED to ADOPT AGIA 11. Vice Chair Stoltze OBJECTED.

Commissioner Galvin pointed out the amendment addresses issues of abandonment, Page 18, Lines 19-20, revising the first sentence to read: "If the commissioners [or] and the licensee do not agree [find] that the project is uneconomic [and the other party disagrees], the". The language offers clarification.

Representative Gara inquired if the Department requested AGIA 10. Commissioner Galvin replied it had been included in AGIA 9.

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 11 was adopted.

[2:49:08 PM](#)

Co-Chair Chenault MOVED to ADOPT AGIA 12. Commissioner Galvin noted that AGIA 12 was included in AGIA 9. Co-Chair Chenault WITHDRAWN AGIA 12.

[2:49:37 PM](#)

Representative Kelly MOVED to ADOPT AGIA 13. Vice Chair Stoltze OBJECTED.

Commissioner Galvin stated that the amendment addresses language on Page 2, Line 18, deleting "five" and inserting "seven", providing a reimbursement time line.

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 13 was adopted.

[2:52:40 PM](#)

Representative Thomas MOVED to ADOPT AGIA 14. Vice Chair Stoltze OBJECTED.

Commissioner Galvin explained that the amendment was made to Page 2, Line 30, deleting "80" and inserting "90". The language identifies the risk profile & possibility of an unsuccessful open season.

Co-Chair Chenault inquired why 100% had not been used. Commissioner Galvin responded that it is important that the

licensee has involvement. He hoped that the split would be less than 90/10; it is important to allow applicants a sense of ownership. Co-Chair Chenault encouraged that the State take their role of being stewards of Alaskan's money seriously. There will be economic gain for any partner in the project.

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 14 was adopted.

[2:56:43 PM](#)

Representative Kelly MOVED to ADOPT AGIA 15. Vice Chair Stoltze OBJECTED.

Commissioner Galvin discussed AGIA 15. The amendment attempts to capture legislative interest regarding how the State can receive reimbursement for the contributions, if the project is successful. There could be a possibility of profit sharing, in which the State would share in the proceeds of the revenue generated by the project. The amendment proposes opening the door for passive-equity interest. It does not change the provision of in-State contributions. Any payment offers would not increase the tariff or be passed on to the shippers.

Representative Gara summarized that the goal is to guarantee that the State become an equity owner. He said if the project is successful, the producers would be willing to pay back some or all of the \$500 million dollars. Commissioner Galvin agreed, clarifying that if there was a linkage of their payment to the State and the contribution, it could not be done through offering contribution considered a loan. The contribution must be deducted from the tariff & not included in the rate base.

Vice Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, AGIA 15 was adopted.

[3:02:12 PM](#)

Representative Kelly MOVED to ADOPT AGIA 16. Vice Chair Stoltze OBJECTED.

REPRESENTATIVE RALPH SAMUELS explained that the Federal Energy Regulatory Commission (FERC) made a presumption that they would have rolled-in tariffs. The Administration feared that those regulations could be changed so that the presumption of rolled-in tariffs would no longer exist. The bill clarifies that as long as the presumption is there and the pipeline entity exists, individual shippers could argue their own economic interest.

Representative Gara asked how the current language works. Commissioner Galvin explained that if the shipper took advantage of the upstream inducements offered in the bill, as a condition of receiving those inducements, they would have to commit to not oppose the application of rolled-in rates. The amendment removes the commitment to not oppose those.

Representative Gara commented that the shippers [the majors] would be receiving a good deal from the State with a tax lock-in. In exchange, he hoped to see a commitment that they not get rolled-in rates. The tariff should be held down in order that new explorers will be able to get into the pipeline. He acknowledged that the difference between the bill and the amendment is a small degree. He felt strongly to make the shippers stand with the State to produce the gas. Rolled in rates keep the tariff lower for the new shippers.

Representative Hawker understood that the Administration supports AGIA 16. Commissioner Galvin recognized there is an issue, however, the Administration believes that the concern could keep producers from making a commitment. The Administration will support the amendment, a gradation issue.

Representative Gara maintained his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Thomas, Crawford, Foster, Hawker, Joule,
Kelly, Nelson, Stoltze, Chenault, Meyer
OPPOSED: Gara

The MOTION PASSED (10-1).

[3:12:04 PM](#)

Representative Kelly MOVED to ADOPT AGIA 17, 25-GH1060\V.10, Bullock, 5/10/07. Representative Crawford OBJECTED.

Representative Kelly explained that the amendment takes language from a prior version that was more inclusive.

Representative Crawford emphasized that the amendment is very important. Project Labor Agreements (PLA) do not preclude non-Union workers from working. PLA's do guarantee that everyone working on a project makes the same wage and same working conditions; everyone is treated equally. Collective bargaining is the only thing that guarantees local Alaska hire; if there is no collective bargaining agreement, the door remains open for out-of-state labor.

Co-Chair Chenault voiced support for the amendment, agreeing on the need for a project labor agreement. He understood that villages need job opportunities and that no one should be excluded; all Alaskans need to have a job. He referenced the construction project of the proposed pipeline, commenting that the language should remain open enough to cause no concern for either non-Union or Union companies. No one should be left out.

Representative Gara accepted the response from the Administration. Current language guarantees that there will be a project labor agreement for the right of Union labor on the work site. The risk is that the Courts will not agree to the provision of Alaskan hire requirements. One way to guarantee Alaska-hire is through the PLA. Representative Gara reiterated the need for Alaska hire. He projected that there would be people coming from out of State, living in the communities and then leaving the State when the project is complete. There will be social costs.

Co-Chair Chenault commented on his previous experience hiring out of Union halls. He believed that the issue is to make sure the agreement is open enough that every Alaskan has the opportunity to work.

[3:23:30 PM](#)

Representative Crawford clarified his intent that every qualified person in Alaska be considered to work first. A collective bargaining agreement would guarantee that Alaskans are first.

Representative Thomas commented that his district is mostly non-Union. He thought that the amendment would leave the door open for Alaska hire. He addressed the fiscal note for the State Training Employment Program (STEP) attached to the bill. Representative Crawford pointed out that the State already spends over \$10 million dollars a year to offer training for Alaskans. Those are statewide outreach programs; he did not think that the amendment would close the door. Non-Union workers are not being discriminated against.

Vice Chair Stoltze noted that he was committed to voting for a PLA and was sensitive to Alaska hire. He pointed out that the Governor has a strong moral ethic and force to push the Alaska hire.

Representative Joule summarized that all Committee members were hoping for the same goal, which is having Alaskans hired to build the pipeline.

[3:35:26 PM](#)

Representative Gara asserted that the amendment reduces the chance for Alaska hire. The State can not mandate Alaska hire. Unions are the only entity that can be forced to provide Alaska hire. The stronger the PLA, the more likely the State will be able to enforce Alaska hire.

Co-Chair Chenault interjected that the agreement would be negotiated when the project was sanctioned.

[3:38:11 PM](#)

Representative Kelly noted that the intent of the amendment is to send a message to all Alaskans regarding the hire of Union and non-Union. He stated that negotiations should occur in statute. He pointed out that Unions are well represented in the State's capitol. The message remains that all Alaskans be represented in the process. The legislation does not "put shackles" on Unions.

A roll call vote was taken on the motion.

IN FAVOR: Foster, Hawker, Kelly, Stoltze, Thomas,
Chenault, Meyer
OPPOSED: Crawford, Gara, Joule, Nelson

The MOTION PASSED (7-4).

[3:40:48 PM](#)

Co-Chair Chenault MOVED to ADOPT AGIA 18. Vice Chair Stoltze OBJECTED.

REPRESENTATIVE BOB ROSES spoke to the amendment, which would insert "50 percent of" on Page 15, Line 25 and Page 19, Line 27. He provided members with a spreadsheet. (Copy on File).

Representative Roses explained if the project proved to be uneconomic, the State could buy them out of the project. If a licensee spent \$200 million dollars during open season, they would have a 50/50 split. After open season, the split would go to 90/10, equating to \$450 million dollars with a \$500 million dollar limit. The licensee would be up to \$200 million dollars. He asserted that provision encourages investors to spend less up-front and then the State pays more. The amendment provides a 50% pay-out at the net cost. He provided examples.

[3:46:39 PM](#)

Commissioner Galvin stated that the Administration opposes AGIA 18, which they believe will drive applicants away. Under the current bill, the State would have to make the expenditure in order to own the asset. The licensee would

have nothing but the cost of their time. He did not feel that they would take advantage of that option.

[3:48:41 PM](#)

Representative Gara noted that if a producer did back out, their certificate would not be worth that much. He acknowledged the cost savings but expressed concern that the message to investors would be that if producers do not provide the gas they would stand to lose 50% of their investment.

Representative Roses argued that the State does have "skin in the game", pointing out that the State would be left with a less than marketable product. The intent is the incentive. If the potential licensee looses, they will fight harder than if they have no risk; past that point, there is a 100% guarantee. Once the licensee goes to FERC, the risk is over.

[3:52:25 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Foster, Gara, Hawker, Joule, Kelly, Nelson, Stoltze, Thomas, Crawford, Meyer

OPPOSED: Chenault

The MOTION PASSED (10-1).

AT EASE: [3:53:37 PM](#)

RECONVENE: [5:47:08 PM](#)

Representative Gara MOVED to ADOPT AGIA 19, 25-GH1060\V.8, Bullock, 5/10/07. Vice Chair Stoltze OBJECTED.

Representative Gara stated that AGIA 19 provides for the Alaska hire provision, with the intention to maximize the number of those hired in State when it is "feasible and economic".

Co-Chair Chenault MOVED to AMEND AGIA 19, changing Page 19 to Page 9. Commissioner Galvin recognized the intent to maximize Alaska hire and the use of Alaska businesses. He did not see any issues with the language & is consistent with the intent of the provision.

[5:51:33 PM](#)

Representative Hawker asked if the amendment had been sponsored by the Administration. Commissioner Galvin said it had not. Representative Hawker worried about using

"economic"; he recommended using "economical" instead. Representative Gara accepted that recommendation.

Representative Hawker MOVED a conceptual amendment to AGIA 19, deleting "economic" on Page 1, Lines 2 & 5 and inserting "economical". There being NO OBJECTION, it was amended.

Representative Hawker spoke against the amended AGIA 19. He stated that the language reaches beyond layers of counsel & worried about forthcoming court cases. He reiterated that he did not support the amendment.

[5:54:40 PM](#)

Representative Gara commented that current language encourages hiring qualified residents. He thought that an applicant could claim that the language does not require maximizing the use of Alaska labor. Commissioner Galvin responded that the manner in which the Department interpreted the language was "to the extent permitted by law", intended to dictate the level of the State's ability to obligate to commit to make the promise. The Administration recognizes that they cannot require them to hire Alaskans. Creating some sense of maximum-extent could help accomplish that by adding "maximum" on Line 16 following "the".

Representative Gara WITHDREW AGIA 19.

[5:58:33 PM](#)

Representative Crawford interjected that the language is "academic" and that the law qualifies that the State can not require Alaska hire. The only enforceable option would be to have an enforceable quota licensed through a PLA.

Representative Gara MOVED to ADOPT AGIA 19(a), inserting "maximize", Page 9, Line 16. There being NO OBJECTION, AGIA 19(a) was adopted.

[6:00:42 PM](#)

Representative Gara agreed with Representative Crawford that the Alaska hire provision is important and that the only way to accomplish it would be through federal law.

[6:01:32 PM](#)

Representative Kelly MOVED to ADOPT AGIA 20, 25-GH1060\V.12, Bullock, 5/10/07. Representative Hawker OBJECTED.

REPRESENTATIVE PAUL SEATON commented that the amendment in Section (B), clarifies that the State of Alaska would remove their ability to take royalty in-kind as long as the leasee

agrees to sell gas at that value and rates and to provide gas for in-State residential & commercial uses.

He noted that he had worked through the language and if the leasee had failed to provide at those rates or below, then it would switch to the previous 90-day situation. The Committee worked with the Administration to make sure that there were no unintended consequences to up-stream unit agreements. He pointed out that two of the major producers are no longer worried about switching and do not see the value in the language. It would not provide a significant bar.

Representative Seaton requested that AGIA 20 be withdrawn.

[6:05:48 PM](#)

Representative Nelson asked the definition of the acronyms. Representative Seaton apologized, clarifying Royalty in Value (RIV) and Royalty in Kind (RIK).

[6:07:24 PM](#)

Representative Kelly WITHDREW AGIA 20.

[6:07:53 PM](#)

Representative Crawford noted that he supports the gas pipeline, however, without including a strong Alaska hire provision, he would be a no vote.

[6:09:29 PM](#)

Representative Foster MOVED to REPORT CS HB 177 (FIN) out of Committee with individual recommendations and with the accompanying fiscal notes. Representative Crawford OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Hawker, Joule, Kelly, Nelson, Stoltze,
Thomas, Foster, Gara, Meyer, Chenault
OPPOSED: Crawford

The MOTION PASSED (10-1).

CS HB 177 (FIN) was reported out of Committee with a "do pass" recommendation and with a new fiscal note by the Department of Natural Resources, zero note #1 by the Department of Administration, zero note #2 by the Department of Commerce, Community & Economic Development, zero note #3 by the Department of Natural Resources, fiscal note #5 by the Department of Revenue, fiscal note #6 by the Office of

the Governor, and fiscal note #7 by the Department of Labor
& Workforce Development.
#

ADJOURNMENT

The meeting was adjourned at 6:11 P.M.