

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON OIL AND GAS

April 3, 2007

3:07 p.m.

MEMBERS PRESENT

Representative Vic Kohring, Chair
Representative Kurt Olson, Vice Chair
Representative Nancy Dahlstrom
Representative Jay Ramras
Representative Ralph Samuels
Representative Mike Doogan
Representative Scott Kawasaki

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

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."

- MOVED CSHB 177(O&G) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 177

SHORT TITLE: NATURAL GAS PIPELINE PROJECT

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

03/05/07	(H)	READ THE FIRST TIME - REFERRALS
03/05/07	(H)	O&G, RES, FIN
03/06/07	(H)	O&G AT 3:00 PM BARNES 124
03/06/07	(H)	-- MEETING CANCELED --
03/08/07	(H)	O&G AT 3:00 PM BARNES 124
03/08/07	(H)	-- MEETING CANCELED --
03/13/07	(H)	O&G AT 3:30 PM HOUSE FINANCE 519
03/13/07	(H)	Heard & Held
03/13/07	(H)	MINUTE(O&G)
03/15/07	(H)	O&G AT 3:00 PM BARNES 124
03/15/07	(H)	Heard & Held

03/15/07	(H)	MINUTE(O&G)
03/19/07	(H)	O&G AT 8:30 AM CAPITOL 106
03/19/07	(H)	Heard & Held
03/19/07	(H)	MINUTE(O&G)
03/20/07	(H)	O&G AT 3:00 PM BARNES 124
03/20/07	(H)	Heard & Held
03/20/07	(H)	MINUTE(O&G)
03/21/07	(H)	O&G AT 5:30 PM SENATE FINANCE 532
03/21/07	(H)	Heard & Held
03/21/07	(H)	MINUTE(O&G)
03/22/07	(H)	O&G AT 3:00 PM BARNES 124
03/22/07	(H)	Heard & Held
03/22/07	(H)	MINUTE(O&G)
03/23/07	(H)	O&G AT 8:30 AM CAPITOL 106
03/23/07	(H)	Heard & Held
03/23/07	(H)	MINUTE(O&G)
03/24/07	(H)	O&G AT 1:00 PM SENATE FINANCE 532
03/24/07	(H)	-- Public Testimony --
03/26/07	(H)	O&G AT 8:30 AM CAPITOL 106
03/26/07	(H)	Heard & Held
03/26/07	(H)	MINUTE(O&G)
03/27/07	(H)	O&G AT 3:00 PM BARNES 124
03/28/07	(H)	O&G AT 7:30 AM CAPITOL 106
03/28/07	(H)	Heard & Held
03/28/07	(H)	MINUTE(O&G)
03/28/07	(H)	O&G AT 8:30 AM CAPITOL 106
03/28/07	(H)	Heard & Held
03/28/07	(H)	MINUTE(O&G)
03/29/07	(H)	O&G AT 3:00 PM BARNES 124
03/29/07	(H)	Heard & Held
03/29/07	(H)	MINUTE(O&G)
03/30/07	(H)	O&G AT 8:30 AM CAPITOL 106
03/30/07	(H)	Heard & Held
03/30/07	(H)	MINUTE(O&G)
03/31/07	(H)	O&G AT 1:00 PM BARNES 124
03/31/07	(H)	-- MEETING CANCELED --
04/02/07	(H)	O&G AT 8:30 AM CAPITOL 106
04/02/07	(H)	Heard & Held
04/02/07	(H)	MINUTE(O&G)
04/03/07	(H)	O&G AT 3:00 PM BARNES 124

WITNESS REGISTER

DON BULLOCK, Attorney
 Legislative Legal Counsel
 Legislative Legal and Research Services
 Legislative Affairs Agency

Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 177.

PATRICK GALVIN, Commissioner

Department of Revenue (DOR)

Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 177.

ACTION NARRATIVE

CHAIR VIC KOHRING called the House Special Committee on Oil and Gas meeting to order at [3:07:02 PM](#) . Representatives Doogan, Kawasaki, Dahlstrom, Samuels, and Kohring were present at the call to order. Representatives Ramras and Olson arrived as the meeting was in progress.

HB 177-NATURAL GAS PIPELINE PROJECT

[3:07:29 PM](#)

CHAIR KOHRING announced that the first order of business would be 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."

REPRESENTATIVE DOOGAN informed the committee that a correction must be made to address a conflict between Amendments 2 and 6 that were adopted by the committee on April 2, 2007. He explained that Amendment 2 changed the wording for a situation in which the state would compensate the licensee, in the event of a failed project, by an amount limited to qualified costs. Amendment 6, however, eliminated one of the scenarios under which the state would not pay. Therefore, Amendment 6 amends the bill as it had been previously amended by Amendment 2. The net effect, he said, and the intent of the committee by approving Amendment 6, is that the state gets the data at no cost.

[3:09:16 PM](#)

CHAIR KOHRING asked for the drafter to provide the wording of the correction.

[3:09:27 PM](#)

DON BULLOCK, Attorney, Legislative Legal Counsel, Legislative Legal and Research Services, Legislative Affairs Agency, informed the committee that Amendment 2 allowed for the payment of qualified costs that the licensee has actually incurred and expended; Amendment 6 removed that part of the section, although with different wording. He reiterated that the sponsor's intent is that all transfer of data will be at no cost to the state.

[3:09:52 PM](#)

CHAIR KOHRING announced that the record will reflect the correction.

REPRESENTATIVE DOOGAN moved Amendment 9, which read [original punctuation provided]:

Page 7, line 30

Delete "and the coordinator"

Page 11, line 21

Delete "and the coordinator"

REPRESENTATIVE SAMUELS objected.

REPRESENTATIVE DOOGAN noted that the first line of Amendment 9 should read page 8, line 30, instead of page 7, line 30. He then explained that Amendment 9 removes the coordinator from the application review and the application decision processes. Representative Doogan said that he is offering the amendment because the bill is unclear about the appointment term of the coordinator. In addition, the coordinator's position is related to working with state agencies and not the application process.

[3:10:59 PM](#)

CHAIR KOHRING said that he supports the intent of Amendment 9.

[3:11:09 PM](#)

REPRESENTATIVE DAHLSTROM confirmed that the administration has approved of Amendment 9.

[3:11:28 PM](#)

REPRESENTATIVE SAMUELS removed his objection to Amendment 9.

CHAIR KOHRING announced that there being no further objection, Amendment 9 was adopted.

[3:11:34 PM](#)

CHAIR KOHRING called the committee's attention to a new amendment referencing AS 43.90.180, and identified as Amendment 20.

[3:12:02 PM](#)

REPRESENTATIVE DOOGAN moved Amendment 20, which read [original punctuation provided]:

Sec. 43.90.180. Notice, review and comment. (a)

The commissioners shall publish notice and provide a 60-day period for public review and comment on all applications determined complete under AS 43.90.140.

(b) Applications received under this chapter are not public records and are not subject to public disclosure under AS 40.25 until the commissioners publish notice under this section. However, information that the commissioners have determined is confidential under AS 43.90.150 may not be made public even after the notice is published under (a) of this section, except as provided in AS 43.90.150. If information is held confidential under this subsection, the applicant shall provide a summary of the withheld information satisfactory to the commissioners and the commissioners shall make such summary available to the public.

(c) All information provided by applicants to the commissioners under this chapter, including information determined to be confidential under AS 43.90.150, will be disclosed by the commissioners to the legislative auditor, the director of legislative finance and their agents and contractors, and legislators, provided the person requesting disclosure signs an appropriate confidentiality agreement provided by the commissioners.

REPRESENTATIVE SAMUELS objected.

REPRESENTATIVE DOOGAN stated that the citation for Amendment 20 should actually be AS 43.91.60.

The committee took an at-ease from 3:12 to 3:13.

REPRESENTATIVE DOOGAN noted his concern about HB 177, page 10, following line 9, regarding the legislative review of the award of the license. He said that the administration suggested the language of Amendment 20 and that it will allow all of the information collected, after the granting of the license, to be reported to the legislative officials and to legislators who have signed a confidentiality agreement. Representative Doogan expressed his belief that Amendment 20 is a necessary addition to HB 177.

[3:14:39 PM](#)

REPRESENTATIVE SAMUELS asked whether the amendment called for a deadline for submitting the information.

[3:15:03 PM](#)

PATRICK GALVIN, Commissioner, Department of Revenue (DOR), said that Amendment 20 is placed with the confidential notice section of the bill. The administration's intent is that the confidential information will be available at the beginning of the public review and not at the beginning of the legislative review.

[3:15:54 PM](#)

REPRESENTATIVE SAMUELS suggested that Amendment 20 should be treated as a conceptual amendment and that the state's intent should be clarified. He then removed his objection to Amendment 20.

[3:16:11 PM](#)

CHAIR KOHRING announced that seeing no further objection, [Conceptual] Amendment 20 was adopted.

REPRESENTATIVE RAMRAS moved Conceptual Amendment 21, which read [original punctuation provided]:

Page 3, Line 30:

- (2) provide a detailed description of:
- a. the applicant;

- b. all affiliates of the applicant;
- c. all partners or joint venturers or other similar entities participating with the applicant in the project or upon whom the applicant intends to rely for completion of the proposed project;
- d. the information provided under this subsection shall include the nature of any affiliation as well as the nature and extent of commitments by partners and joint venturers to the proposed project that will allow the commissioners to evaluate the applicant's readiness and ability to perform the activities specified in the application.

Renumber accordingly

REPRESENTATIVE SAMUELS objected.

REPRESENTATIVE RAMRAS informed the committee that Conceptual Amendment 21 refers to the applicant's alignment with other parties. Conceptual Amendment 21 will require disclosure of the license applicant and its affiliates, partners in joint ventures, similar entities, equity stakes, and percentages of interest. Representative Ramras said that this will inform the legislature which group the potential applicant represents.

[3:18:04 PM](#)

REPRESENTATIVE SAMUELS asked for further clarification.

[3:18:24 PM](#)

REPRESENTATIVE RAMRAS explained that the disclosure would include the names, addresses, and percentages of interest held by the members of the prevailing entity or limited liability company (LLC).

REPRESENTATIVE DAHLSTROM asked whether the disclosure would also include subsidiaries.

REPRESENTATIVE RAMRAS said, "Alignment is what I'm interested in. Who are we dealing with?"

[3:19:03 PM](#)

REPRESENTATIVE SAMUELS removed his objection.

CHAIR KOHRING announced that there being no further objection, Conceptual Amendment 21 was adopted.

[3:19:15 PM](#)

REPRESENTATIVE RAMRAS moved Amendment 22, 25-GH1060\E.10, Bullock, 4/3/07, which read:

Page 1, line 4, following "**coordinator;**":

Insert "**establishing the gas utility revolving loan fund;**"

Page 27, following line 26:

Insert a new bill section to read:

"* **Sec. 5.** AS 42.45 is amended by adding a new section to read:

Sec. 42.45.025. Gas utility revolving loan fund.

(a) The gas utility revolving loan fund is established in the authority. The fund consists of

(1) appropriations made to the fund; and
(2) repayments of principal and interest on loans made under this section.

(b) The authority may make loans from the gas utility revolving loan fund to gas utilities certificated under AS 42.05. A loan from the fund may be made only for the purpose of constructing or extending new gas service into an area of the state that a gas utility may serve under a certificate of public convenience and necessity issued under AS 42.05. A loan may be made from the fund to a gas utility if the utility invests the money necessary to provide service for each consumer for whom service would be provided by the construction or extension of gas service.

(c) A loan from the gas utility revolving loan fund shall bear an annual rate of interest of two percent of the unpaid balance of the loan.

(d) When the authority makes a loan under this section, the gas utility receiving the loan shall

(1) in addition to the rates that it is authorized to charge, charge the consumers served by the gas service constructed or extended with the loan proceeds an amount sufficient to pay the interest costs of the loan;

(2) pay to the authority annually an amount equal to

(A) interest of two percent on the unpaid balance of the loan; and

(B) payments on the unpaid balance of the principal of the loan for each new consumer served by the gas service constructed or extended with the loan proceeds; payments on the unpaid balance of the principal of the loan shall be made at a rate equal to the difference between the actual cost of making the service connection to the consumers and the minimum investment for each consumer required of the utility before a loan is made under (b) of this section.

(e) The authority shall

(1) adopt regulations necessary to carry out the provisions of this section; and

(2) administer the gas utility revolving loan fund.

(f) Money in the gas utility revolving loan fund may be used by the legislature to make appropriations for costs of administering the fund.

(g) On June 30 of each fiscal year, the unexpended and unobligated cash balance of the fund that is attributable to loans owned by the fund lapses into the general fund.

(h) In this section,

(1) "consumer" means a person or a governmental agency, if the person or governmental agency requests and offers to pay for gas service to a facility or part of a facility;

(2) "facility" means a structure capable of receiving and using natural gas energy; and

(3) "governmental agency" includes, with respect to the state or federal government or a municipal government, a legislative body, board of regents, administrative body, board, commission, committee, subcommittee, authority, council, agency, public corporation, school board, department, division, bureau, or other subordinate unit, whether advisory or otherwise, of the state, federal, or municipal government."

Renumber the following bill sections accordingly.

Page 28, line 7:

Delete all material and insert:

"* **Sec. 8.** The uncodified law of the State of Alaska is amended by adding a new section to read:

CONDITIONAL EFFECT. AS 42.45.025, enacted by sec. 5 of this Act, takes effect only if a natural gas pipeline project that provides for delivery points in the state receives a license under AS 43.90.

* **Sec. 9.** If sec. 5 of this Act takes effect, it takes effect on the date a natural gas pipeline project that provides for delivery points in the state receives a license under AS 43.90, as enacted by sec. 1 of this Act.

* **Sec. 10.** Except as provided in sec. 9 of this Act, this Act takes effect immediately under AS 01.10.070(c)."

REPRESENTATIVE SAMUELS objected.

[3:20:35 PM](#)

REPRESENTATIVE RAMRAS informed the committee that HB 177 requires two open seasons. Firstly, an open season occurs when the producers have an opportunity to nominate gas into the big pipeline. Secondly, when the pipeline approaches the off-take points, the nearby communities must nominate a certain amount of gas into their communities. Representative Ramras pointed out that Southcentral is the only region in the state that is fully gasified. Fairbanks, he noted, has a modest amount of gas utility infrastructure for 1,000 residential customers and the other three off-take points have yet to be determined. Representative Ramras said that he is concerned about the considerable cost of installing the pipes necessary for a community to nominate gas when the opportunity arises. Amendment 22 will create a low interest, revolving, gas utility loan fund that will remain unfunded until needed. This loan fund will ensure that the communities are gas ready even though the gas pipeline installation is uneconomic for the local utility. He noted that Fairbanks is scheduled for another rate increase and, after waiting four years for gas, the cost of amortization will pass to the existing rate base or to the local utility. Representative Ramras relayed that this problem is of primary concern to the commissioners of the Department of Revenue (DOR), the Department of Natural Resources (DNR), and the Department of Commerce, Community & Economic Development (DCCED). He said that he wanted to ensure that AGIA addresses the need to develop supply lines for the Alaska off-take points.

[3:25:01 PM](#)

REPRESENTATIVE SAMUELS asked who the "authority" is that is referred to in the amendment.

[3:25:17 PM](#)

REPRESENTATIVE RAMRAS responded that the loan fund will be administered by the Alaska Energy Authority.

[3:25:38 PM](#)

REPRESENTATIVE SAMUELS stated that he did not want to put one community in a political battle with another. He requested more information on the amendment from the administration.

[3:26:45 PM](#)

DON BULLOCK, Attorney, Legislative Legal Counsel, Legislative Legal and Research Services, Legislative Affairs Agency, as the drafter, informed the committee that the language of Amendment 22 is based on the Rural Electrification Revolving Loan Fund. He added that the fund will be established on the day that the license is issued.

[3:28:01 PM](#)

PATRICK GALVIN, Commissioner, Department of Revenue (DOR), stated that the administration has no objection to the amendment. However, he expressed his concern that adding too much to AGIA may detract from the main purpose of the bill and he cautioned against including potentially controversial, albeit worthy, issues.

[3:29:43 PM](#)

CHAIR KOHRING indicated his support of the amendment.

[3:29:57 PM](#)

REPRESENTATIVE KAWASAKI also cautioned against burdening AGIA with details.

REPRESENTATIVE SAMUELS removed his objection to Amendment 22.

[3:30:55 PM](#)

CHAIR KOHRING announced that there being no further objection, Amendment 22 was adopted.

REPRESENTATIVE RAMRAS moved Conceptual Amendment 23, which read [original punctuation provided]:

P.8, L.16

Insert a new paragraph to read:

(16)commit to offer at reasonably commercial terms to an agency of the state authorized to invest state money a fractional nonvoting ownership interest in the project no less than 5% of the Alaska portion of the project.

Renumber the following paragraph accordingly.

CHAIR KOHRING objected.

[3:31:38 PM](#)

REPRESENTATIVE RAMRAS told the committee that the previous administration ascertained that the citizens of Alaska want to own an interest in the gas pipeline. He noted that one of the largest Native Corporations or the Alaska Permanent Fund Corporation (APFC) is an entity large enough to withstand the time and risk associated with participation in the project. By limiting Alaska's interest to the portion of the pipeline located in Alaska, Representative Ramras estimated an investment cost of \$500 million would be sufficient to purchase a one-fifth to one-eighth percentage of the project. This investment would give the APFC, for example, an opportunity to participate in a project with estimated investment return of 12 percent to 14 percent.

[3:34:42 PM](#)

COMMISSIONER GALVIN stated that the administration does not oppose the purchase of a percentage of the gas pipeline by APFC. However, adding this obligation on the lessee adds an additional requirement that the lessee must hold a certain percentage of the ownership for an investor without knowing the terms of the investment. He advised the committee that there is nothing in AGIA that prevents future investment from an entity of the state and after the project comes to fruition the possibility of investing can be explored. Commissioner Galvin recommended that the committee not include this mandatory requirement in the bill.

[3:37:12 PM](#)

REPRESENTATIVE SAMUELS suggested placement of this language in the application criteria as an unweighed factor. He also objected to Conceptual Amendment 23.

[3:38:11 PM](#)

COMMISSIONER GALVIN clarified that the evaluation criteria meets two factors: net present value to the state and likelihood of success. Ownership of the pipeline by a state entity does not fit the parameters of the evaluation criteria, he explained. He assured the committee that the idea of the amendment has merit, and supported the concept that, if submitted as a part of an application, Alaskan involvement in the project will be looked upon favorably.

[3:40:16 PM](#)

REPRESENTATIVE DOOGAN remarked:

I'm trying to understand how this would work. So, the permanent fund would say we want to buy 5 percent ... They're not actually buying the pipe, right? ... They're actually becoming a part of whatever entity is going to build the pipe....

COMMISSIONER GALVIN answered that it be an ownership interest, at the outset of the project, so they would own the pipe.

[3:41:17 PM](#)

REPRESENTATIVE DOOGAN observed that [APFC] would own a piece of the company that owned the pipe, which means that cost overruns would be paid by investors according to the percentage of their equity investment.

[3:42:08 PM](#)

COMMISSIONER GALVIN replied that the question of ownership adds complexity to the AGIA legislation. He pointed out that owners can participate in many ways and the present terms in AGIA try to avoid slowing the project down and creating potential side conflicts over providing reasonable commercial terms to a state entity.

[3:43:09 PM](#)

REPRESENTATIVE RAMRAS acknowledged that the legislation is already complex. This amendment creates a fixed variable and AGIA's requirement of reasonable commercial terms allows the interpretation of the value of various investments. He remarked:

... the permanent fund division, which is ... what entity I mean by Amendment number 23, is the permanent fund division, would give all Alaskans the opportunity to own a part of the pipe, with a guaranteed return of between 12 and 14 percent, irregardless of cost overruns because we've covered in previous meetings the mechanism for the debt and the equity financing. ... Whoever enjoys a portion of the pipe ownership is pretty darn happy. ... The bill, without this, is no more or less complex. ... My intent is, as the drafter, is to allow for 670,000 Alaskans to enjoy a fractional ownership and a fixed rate of return. ... I believe that it will be other variables that determine whether or not AGIA succeeds.

[3:47:30 PM](#)

REPRESENTATIVE DOOGAN observed that the 70 percent to 30 percent debt to equity ratio for the construction of the pipeline is spelled out in the bill.

[3:48:21 PM](#)

COMMISSIONER GALVIN clarified that the 70 percent to 30 percent ratio is the ratio that the tariff will be based upon, not necessarily the debt to equity ratio for financing the project.

REPRESENTATIVE DOOGAN said, "So, this would not necessarily reduce the return to the people who would otherwise own this share of the corporation."

[3:49:15 PM](#)

COMMISSIONER GALVIN remarked:

... Assuming that the project is financed based upon some other maximization of return for the overall entity; they would come up with their own debt to equity ratio for that. With this requirement, they would have to give a portion of the equity side of that to the permanent fund, for example, so that would

reduce the available equity for the remainder entity.
... It would affect, ultimately, the return
opportunity of the remaining equity holders.

[3:49:37 PM](#)

REPRESENTATIVE OLSON asked Commissioner Galvin whether the permanent fund has limits on investments by type and amount.

[3:49:54 PM](#)

COMMISSIONER GALVIN answered that the limitations are not necessarily based on a dollar factor, but on a percentage related to diversification and the percentage of ownership. He noted that limitations and ownership investments are also determined by the investors, not just by the language in the amendment. However, the amendment does create a closed market and a level of uncertainty.

[3:51:52 PM](#)

REPRESENTATIVE RAMRAS concluded that Conceptual Amendment 23 will not stop AGIA and that the fixed rate of return is attractive to potential investors. Alaskans want to own the pipeline and this amendment represents a viable idea to accomplish that goal without diminishing the rights of Alaska as a sovereign entity and without the creation of a state pipeline company. He expressed his regret that Alaskans do not have an ownership role in the Trans-Alaska Pipeline System. He repeated his strong support of the amendment.

[3:54:05 PM](#)

MR. BULLOCK pointed out the value in identifying the agencies that may want to invest in the project and that certain corporations, like APFC, may be able to participate without the amendment. He suggested that, under the conceptual amendment, the committee may want to specify the amount, rather than the percentage, of the investment.

[3:55:27 PM](#)

REPRESENTATIVE RAMRAS observed that the permanent fund owns stock in ExxonMobil Corporation (ExxonMobil) and pointed out that this has not caused problems for the citizens of Alaska. He stressed that the concept of the amendment can be finalized by subsequent committees as the bill progresses, and that the

pipeline is a desirable investment for the permanent fund division.

[3:56:55 PM](#)

CHAIR KOHRING agreed that the amendment can be improved by further review. He asked Mr. Bullock to give his opinion about placing the amendment in the evaluation criteria section of HB 177.

[3:57:24 PM](#)

MR. BULLOCK confirmed that the amendment does not relate to the evaluation criteria. He suggested that the requirement could be included in the project list of promises with the addition of qualifying language to ensure that the liability does not follow the interest.

[3:58:46 PM](#)

REPRESENTATIVE SAMUELS maintained his objection to the amendment. He suggested that, at a later date, a program to allow individuals to invest their permanent fund dividends in the pipeline may be appropriate.

[3:59:51 PM](#)

CHAIR KOHRING acknowledged Representative Ramras's compelling argument for the amendment. He then expressed his continued opposition to state ownership of the gas pipeline and called for a vote. A roll call vote was taken. Representatives Kawasaki and Ramras voted in favor of Conceptual Amendment 23. Representatives Doogan, Olson, Dahlstrom, Samuels, and Kohring voted against it. Therefore, Conceptual Amendment 23 failed by a vote of 2-5.

[4:01:25 PM](#)

REPRESENTATIVE OLSON expressed his desire to work with Representative Ramras on improvements to the failed amendment.

[4:01:37 PM](#)

REPRESENTATIVE RAMRAS moved Conceptual Amendment 24, which read [original punctuation provided]:

P. 16, L. 13 Delete "exemption"

Insert "exemptions"

P. 20, L. 27 (b) For the five years immediately following commencement of commercial operation of the project, 20 percent of the gas described in AS 43.90.300 is exempt from the state's tax on the production gas.

REPRESENTATIVE SAMUELS objected.

REPRESENTATIVE RAMRAS expressed his concern that the \$500 million inducement is not guaranteed to attract the producers to nominate their gas at the open season. He said that, despite the value of the upstream commodity, the state needs to increase the value of the inducements for the producers. Putting aside the question of constitutionality, it is in the state's interest to induce gas to the open season by offering fiscal predictability. Representative Ramras said that Conceptual Amendment 24 authorizes a 20 percent discount on the production gas tax for five years after commercial operation of the pipeline begins. Although the tax rate is unknown, the five year discount will provide an element of fiscal certainty for the producers.

[4:05:40 PM](#)

REPRESENTATIVE DOOGAN relayed his opposition to the amendment, not because of the proposed method, but because it is an incentive through taxes. He expressed his view that the incentives to build the gas pipeline should be by reductions of royalty, not tax, revenues.

[4:06:51 PM](#)

REPRESENTATIVE SAMUELS recalled last year's discussions of this topic and opined that the legislature will continue lengthy debate on the tax rate. He said that the topic is a key issue of debate and that he appreciated Representative Ramas for offering the amendment, although the issue will not be settled at this meeting.

[4:08:39 PM](#)

REPRESENTATIVE RAMRAS reiterated his desire to provide meaningful tax inducements for participation in the open season. He then withdrew Conceptual Amendment 24.

4:09:42 PM

CHAIR KOHRING recognized staff members and representatives from the administration and thanked them for their hard work on HB 177. He then moved Amendment 25, 25-GH1060\M.2, Bullock, 4/12/07, which read [original punctuation provided]:

Page 13, line 7:

Delete "becomes law"

Insert "passes the legislature within 90 calendar days after the last date a presiding officer of a house of the legislature receives a determination from the commissioners under AS 43.90.180"

REPRESENTATIVE SAMUELS objected.

CHAIR KOHRING informed the committee that the Committee Substitute (CS), 25-GH1060\E, Bullock, 3/30/07, language regarding the change in the time limit, from 36 to 24 months, will limit the opportunity for potential applicants. In addition, previous testimony has supported the need for the longer period of time. Therefore, Chair Kohring offered Amendment 25 that will reinstate the 36 month time period.

4:12:19 PM

COMMISSIONER GALVIN assured the committee that the 36 month outer time frame gives as much opportunity for a successful open season as possible. He noted that a shorter time frame may result in less than complete applications. Within the 24 month to 36 month range applicants can determine for their own purposes the appropriate length of time needed. Commissioner Galvin stressed that the applicants can shorten the time needed; however, they will not be able to go beyond 36 months. In addition, the time requested by the applicant will be evaluated with the other criteria.

4:14:15 PM

REPRESENTATIVE SAMUELS removed his objection.

CHAIR KOHRING announced that there being no further objection, Amendment 25 was adopted.

4:14:45 PM

REPRESENTATIVE RAMAS recognized Chair Kohring and his staff for their assistance during the hearings.

[4:15:54 PM](#)

REPRESENTATIVE DOOGAN thanked Chair Kohring and the committee for the lack of political partisanship during the hearings. He expressed his hope that the atmosphere of cooperation will continue throughout the debate on HB 177.

[4:16:56 PM](#)

REPRESENTATIVE SAMUELS expressed his appreciation of the administration's work on the bill. He told the committee that his concerns and questions remain about why the state can not get an equity share from the \$500 million inducement. In addition, he said that he felt there is a need for more research on the regulations for the Canadian portion of the project. He then remarked:

I fear, that I pick a partner, and that 11 years later, I picked the wrong partner and they're leveraging me. ... If we get a partner, at a failed open season, who just turns to us and says "Boy, you have to get me the gas." Then we're ... the ones on the outs. So, I will continue to listen to the debates. ... Those are some of the concerns that I still have. ... The bill has to pass ... and we have to work with the administration, I realize that...

[4:19:44 PM](#)

REPRESENTATIVE OLSON thanked Chair Kohring for his leadership during the hearings.

[4:20:05 PM](#)

CHAIR KOHRING thanked the committee members for their important roles in the movement of a historic bill.

[4:20:46 PM](#)

REPRESENTATIVE DAHLSTROM moved to report CSHB 177, 25-GH1060\E, Bullock, 3/30/07 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 177(O&G) was reported out of committee.

4:21:35 PM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Oil and Gas meeting was adjourned at 4:21 p.m.