

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**March 7, 2007**  
**9:15 a.m.**

**CALL TO ORDER**

Co-Chair Lyman Hoffman convened the meeting at approximately [9:15:22 AM](#).

**PRESENT**

Senator Lyman Hoffman, Co-Chair  
Senator Kim Elton  
Senator Donny Olson  
Senator Joe Thomas

**Also Attending:** KAREN REHFELD, Director, Office of Management and Budget, Office of the Governor; JERRY BURNETT, Director, Administrative Services Director, Department of Revenue; RAY RIUTTA, Executive Director, Alaska Seafood Marketing Institute, Department of Commerce, Community and Economic Development; TINA KOBAYASHI, Assistant Attorney General, Oil, Gas & Mining Section, Civil Division, Department of Law;

**Attending via Teleconference:** LARRY OSTROVSKY, Chief Assistant Attorney General, Statewide Section Supervisor, Oil, Gas and Mining Section, Civil Division, Department of Law; RICHARD TODD, Senior Assistant Attorney General, Oil, Gas and Mining Section, Civil Division, Department of Law; KEN DIEMER, Assistant Attorney General, Oil, Gas and Mining Section, Civil Division, Department of Law; KEVIN BANKS, Director, Division of Oil and Gas, Department of Natural Resources.

**SUMMARY INFORMATION**

SB 82-SUPPLEMENTAL APPROPRIATIONS: OIL & GAS

The Committee went into Executive Session to discuss confidential matters pertaining to this legislation. The Committee heard from the Office of Management and Budget, the Department of Law, the Department of Natural Resources, the Department of Revenue, and the Alaska Seafood Marketing

Institute. A committee substitute was adopted and the bill was reported from Committee.

#SB82

[9:15:30 AM](#)

SENATE BILL NO. 82

"An Act making supplemental appropriations and other appropriations; amending the lapse dates of certain appropriations; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

[9:16:19 AM](#)

Senator Olson made the following motion.

Mr. Chairman, I move the Senate Finance Committee go into Executive Session under Uniform Rule 22(b)(1) discussion of matters, the immediate knowledge of which would adversely affect the finances of a government unit; and 22(b)(3) discussion of a matter that may, by law, be required to be confidential.

[9:16:44 AM](#)

There was no objection and the Committee went into Executive Session.

Co-Chair Hoffman announced that Tina Kobayashi, Larry Ostrovsky, Richard Todd, and Ken Diemer of the Department of Law, Kevin Banks of the Department of Natural Resources and other legislators would be allowed to participate in the Executive Session.

Co-Chair Hoffman noted that confidentiality agreements must be signed by those participating in the Executive Session.

EXECUTIVE SESSION [9:17:21 AM](#) / [9:57:18 AM](#)

The Committee continued with the public portion of the meeting.

[9:57:27 AM](#)

Co-Chair Hoffman noted a draft committee substitute had been distributed along with a corresponding spreadsheet. The spreadsheet reflects the provisions of the committee substitute with the exception of the provision making the appropriation contained in Section 2(a) contingent upon passage of separate legislation relating to the Alaska Gasline Inducement Act (AGIA), introduced at the request of Governor Sarah Palin, which was not reflected on the spreadsheet.

[9:58:20 AM](#)

Co-Chair Hoffman requested the Office of Management and Budget speak to the Governor's schedule for development of a natural gas pipeline and passage of the enabling AGIA legislation.

[9:58:40 AM](#)

KAREN REHFELD, Director, Office of Management and Budget, Office of the Governor, appreciated the Committee addressing this bill, given that it had not yet had an opportunity to consider the AGIA bill. With the funding provided in SB 83, she expressed, "it's our hope that we'll be able to get started on some of those critical components dealing with moving the gasline forward."

[9:59:37 AM](#)

Co-Chair Hoffman asked if Governor Palin's position that "groundwork" on the natural gas pipeline would begin in the summer of 2008 was unchanged.

[9:59:51 AM](#)

Ms. Rehfeld responded that the intent with the passage of the AGIA bill was to publish the request for proposals (RFP) and receive applications. The timing for field work would begin the next year, although some assessment could occur during Fiscal Year (FY) 08.

[10:00:15 AM](#)

Co-Chair Hoffman disclosed that by taking "early" action on this supplemental appropriation legislation, a message would be sent

to the Governor and the public that the Legislature was interested in proceeding with the development of a natural gas pipeline and considers the pipeline of "great importance."

[10:00:49 AM](#)

Senator Olson offered a motion to adopt CS SB 82, 25-GS1016\K, as a working document.

[10:01:00 AM](#)

There was no objection and Version "K" was ADOPTED as a working document.

[10:01:11 AM](#)

Co-Chair Hoffman requested Ms. Rehfeld overview components of the committee substitute.

[10:01:18 AM](#)

Ms. Rehfeld noted that departmental representatives were available to respond to questions. She appreciated the appropriation that would allow the Alaska Seafood Marketing Institute (ASMI) salmon marketing efforts to continue in the current fiscal year.

Ms. Rehfeld furthered that the Executive Branch intended to cooperate with the Legislature in complying with the contingency language of Section 8 of the committee substitute.

[10:02:21 AM](#)

LARRY OSTROVSKY, Chief Assistant Attorney General, Statewide Section Supervisor, Oil, Gas and Mining Section, Civil Division, Department of Law, testified via teleconference from an offnet location that the Department had requested \$21.5 million. He referenced a memorandum he wrote to the Committee dated March 1, 2007, which provided a "general breakdown of the Department of Law's oil, gas and mining funding requirements for the remainder of FY 07 and FY 08", as follows.

	FY 07 Supplemental	FY 08
TAPS [Trans Alaska Pipeline System]		
Tariff	\$2.8 million	\$1.3 million

Income Tax	2.8 million	4.45 million
Royalty	0.3 million	1.0 million
Other Litigation	1.0 million	.05 million
Gas Pipeline	2.0 million	6.0 million
Total	\$8.7 million	\$12.8 million

[10:05:04 AM](#)

Co-Chair Hoffman noted this relates to the previous presentation of the appropriation requests.

[10:05:16 AM](#)

KEVIN BANKS, Director, Division of Oil and Gas, Department of Natural Resources, testified via teleconference from an offnet location that the funding request addressed in Section 2 of the committee substitute pertained to "royalty valuation issues." The AGIA legislation would provide for "upstream" inducements for those producers that commit gas resources to the proposed natural gas pipeline. The funding appropriated in SB 82 would be utilized in efforts "to provide some kind of certainty about what royalty payments will be required" as well as determining how royalty-in-kind and royalty-in-gas would be considered.

[10:06:14 AM](#)

Mr. Banks continued that the Department would also expend the supplemental appropriated funds to continue modeling the different pipeline configurations with respect to royalty values and tariff "consequences" in the tariff structure proposals the State would receive from applicants. This would involve employment of technical experts familiar with gas markets and Federal Energy Regulatory Commission (FERC) regulations.

[10:07:11 AM](#)

Co-Chair Hoffman requested comment from the Department of Revenue on the appropriation provided in Section 3 relating to commercialization of North Slope gas.

[10:07:30 AM](#)

JERRY BURNETT, Director, Administrative Services Director, Department of Revenue, testified that the \$3 million requested consists of approximately \$419,000 intended to develop

additional expertise of the internal economists. Approximately \$1.5 million of the appropriation would be utilized to contract with external economics firms and commercial analysis firms to review tax terms and other issues. The remaining approximate \$1 million would be expended for outside legal counsel.

[10:08:34 AM](#)

Ms. Rehfeld, responding to Co-Chair Hoffman's query, noted that the requests for extended lapse dates on previous appropriations were summarized on the aforementioned spreadsheet and would effect several departments.

[10:08:55 AM](#)

Co-Chair Hoffman reminded that this information was addressed "extensively" during the previous hearing on this bill and SB 61.

[10:09:04 AM](#)

Co-Chair Hoffman asked for an explanation of the appropriation made in Section 5.

[10:09:15 AM](#)

RAY RIUTTA, Executive Director, Alaska Seafood Marketing Institute (ASMI), Department of Commerce, Community and Economic Development, testified that the funding would be expended to continue the Institute's television marketing campaign for Alaska salmon through the remainder of the current fiscal year and "into the fall" of 2007. The campaign began the previous year and this funding would allow additional time slots to be purchased. The most advantageous time slots must be purchased in advance.

[10:10:34 AM](#)

Ms. Rehfeld and Co-Chair Hoffman explained that Section 6 provides that the appropriations made in this bill would not lapse in one year but would be extended as provided in AS 37.25.020.

[10:11:57 AM](#)

Co-Chair Hoffman pointed out that Section 8 contains the aforementioned contingency provision requiring passage of the Alaska Gasline Inducement Act to authorize the appropriation of \$6.55 million to the Department of Natural Resources.

[10:12:13 AM](#)

Ms. Rehfeld stated that the language of Section 9 would allow the appropriation to the ASMI to be made March 16, 2007.

[10:12:28 AM](#)

Senator Elton asked the consequence to the efforts of the Department of Natural Resources in the event the AGIA legislation was not passed.

[10:13:09 AM](#)

Mr. Banks responded as follows.

I think the budget supplemental... and the funds that we have now included here for '07 will carry us through. Then the AGIA fiscal note, of course, will associate for FY 08 starting in June - about the time the RSA will hit the street. So the answer is: no, we have and are turning the wheels on our models today and we do have outside experts working either directly for the Division or the Department or through funds that have been RSA'd through the Department of Law for this kind of expertise.

[10:14:18 AM](#)

Senator Thomas, referring to the appropriation to ASMI, asked if a similar supplemental funding request was anticipated for FY 08.

[10:14:42 AM](#)

Ms. Rehfeld replied that the Governor's proposed FY 08 budget includes sufficient funding for the campaign in the next fiscal year. This supplemental appropriation is necessary to address a "timing issue".

[10:14:59 AM](#)

Co-Chair Hoffman asked if a timing issue would occur next year.

[10:15:04 AM](#)

Ms. Rehfeld answered that one was not anticipated.

[10:15:08 AM](#)

Senator Olson offered a motion to report CS SB 82, 25-GS1016\K, from Committee with individual recommendations.

Without objection, CS SB 82 (FIN) was REPORTED from Committee.

#

**ADJOURNMENT**

Co-Chair Lyman Hoffman adjourned the meeting at [10:15:36 AM](#)