

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

February 15, 2008

3:33 p.m.

MEMBERS PRESENT

Senator Charlie Huggins, Chair
Senator Bert Stedman, Vice Chair
Senator Lyda Green
Senator Lesil McGuire
Senator Gary Stevens
Senator Bill Wielechowski
Senator Thomas Wagoner

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Senator Joe Thomas
Representative Jay Ramras

COMMITTEE CALENDAR

SENATE BILL NO. 248

"An Act relating to the salmon product development tax credit; providing for an effective date by amending an effective date in sec. 7, ch. 57, SLA 2003, as amended by sec. 4, ch. 3, SLA 2006; and providing for an effective date."

MOVED SB 248 OUT OF COMMITTEE

Presentation: AGIA Applicant A Energia

PREVIOUS COMMITTEE ACTION

BILL: SB 248

SHORT TITLE: SALMON PRODUCT DEVELOPMENT TAX CREDIT

SPONSOR(s): SENATOR(s) HOFFMAN

01/25/08	(S)	READ THE FIRST TIME - REFERRALS
01/25/08	(S)	RES, FIN
02/13/08	(S)	RES AT 3:30 PM BUTROVICH 205
02/13/08	(S)	Scheduled But Not Heard
02/15/08	(S)	RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

TIM GRUSSENDORF, Staff to Senator Lyman Hoffman
Alaska State Legislature
State Capitol
Juneau, AK

POSITION STATEMENT: Presented SB 248 on behalf of Senator Hoffman, sponsor.

MARY McDOWELL, Vice President
Pacific Seafood Processors Association

POSITION STATEMENT: Supported SB 248 and answered questions.

TOM SUNDERLAND, Marketing Director
Ocean Beauty Seafoods LLC

POSITION STATEMENT: Supported SB 248.

TIM COTTONGIM, Fish Group Manager
Tax Division
Department of Revenue
Juneau, AK

POSITION STATEMENT: Testified on matters relating to SB 248.

ANDREW L. TABER, Principal Partner
AEnergia, LLC
West Sacramento, CA

POSITION STATEMENT: Gave PowerPoint presentation on AEnergia's AGIA application and answered questions.

WILLIAM J. BURKHARD, Principal Partner
AEnergia, LLC
West Sacramento, CA

POSITION STATEMENT: Gave PowerPoint presentation on AEnergia's AGIA application and answered questions.

ACTION NARRATIVE

CHAIR CHARLIE HUGGINS called the Senate Resources Standing Committee meeting to order at [3:33:44 PM](#). Present at the call to order were Senators Green, Stevens, Wagoner, and Chair Huggins; Senators Stedman and Wielechowski arrived within a few minutes, and Senator McGuire joined the meeting in progress. Also in attendance were Senator Joe Thomas and Representative Jay Ramras.

SB 248-SALMON PRODUCT DEVELOPMENT TAX CREDIT

[3:34:29 PM](#)

CHAIR HUGGINS announced SB 248 to be up for consideration.

TIM GRUSSENDORF, Staff to Senator Lyman Hoffman, Alaska State Legislature, presented SB 248 on behalf of Senator Hoffman, sponsor. He indicated the salmon product development tax credit was enacted in 2003 to allow processors to claim up to 50 percent of the cost of qualified investments from the fisheries business tax. To qualify, projects must be new, predominantly for salmon, and involve value-added products. The credit encourages and accelerates development and production of value-added salmon products, giving an economic incentive to invest in technology and equipment. The current bill makes two changes. The first extends the sunset date three years, to December 31, 2011.

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SENATOR WIELECHOWSKI joined the meeting.

MR. GRUSSENDORF discussed the second change. He said after some processors had invested in equipment, they found it didn't qualify once the Department of Revenue (DOR) reviewed the project and application. Thus Section 2 says folks can present their project to DOR, which will review it; if it's approved, DOR is bound to that decision as long as the processor follows the intent and the project that was submitted.

CHAIR HUGGINS noted the credit is binding. He asked: If a project is deemed not appropriate, is that decision not binding?

MR. GRUSSENDORF replied that's how he understands it, but someone from DOR could speak to that.

CHAIR HUGGINS asked whether that is a big deal, based on past experience.

MR. GRUSSENDORF noted packets contain a sheet from DOR's Tax Division showing credits denied at audit. He didn't know how often it had happened, but indicated the bill lets the processors know better whether their investments will qualify.

CHAIR HUGGINS observed that \$2.5 million was denied in 2004.

MR. GRUSSENDORF clarified that it was upon audit.

CHAIR HUGGINS asked whether there is concern in the other direction, since there must be some rationale for denying it during an audit.

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MR. GRUSSENDORF surmised some processors had called in, explained the project over the phone, and then been told it sounded like a project that would qualify; then it wasn't done exactly as discussed or there was miscommunication. So now there'll be a process under which a determination is made as to whether the project fits within the scope of the credit.

CHAIR HUGGINS asked about page 2 of the analysis, which says the credits only reduce fisheries business tax to the state and do not impact revenues shared with municipalities.

MR. GRUSSENDORF answered that he believes some of the fisheries tax goes back to the communities where the fish was landed. The other part goes to the state, and this credit only applies to that part. He deferred to DOR for details.

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MARY McDOWELL, Vice President, Pacific Seafood Processors Association (PSPA), listed PSPA's member companies that are salmon processors, many with shore plants around the state. She said those companies make good use of this tax credit to advance the program's goals and purposes, including: developing and expanding new and value-added salmon products, helping Alaska's salmon products keep pace with evolving consumer demands, and keeping Alaska's fisheries competitive in world markets. She highlighted letters from companies regarding how they've used the credit to make improvements and how much sooner they've been able to accomplish these developments because of it.

MS. McDOWELL said the legislature constructed the tax credit tightly to accomplish specific goals; it has been successful, but momentum must be maintained. Skyrocketing energy costs eat up profits and hamper the ability to reinvest and advance new product forms. She pointed out that most processors operate in rural areas where energy costs are highest and yet the need for the kind of economic activity generated by the seafood industry is highest as well.

MS. McDOWELL told members that adding value to salmon products right away and keeping products competitive provides benefits to fishermen, communities, processors, and the state coffers. The state needs to encourage economic diversification, prepare for

the future, ensure Alaskan products are competitive, and make the best use of natural resources. Adding value to raw products is an important part, and this tax credit facilitates those goals. She opined that this pays for itself because adding value in Alaska increases the raw fish tax, which comes back to the state. She encouraged support for SB 248.

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SENATOR STEDMAN asked about machines that the processors are buying for value-added products.

MS. McDOWELL answered that many do boneless, skinless fillets for cans or else filleting and freezing. And one company does prepackaged meals, for instance. Some secondary products otherwise are done outside of Alaska. Even filleting and packaging the fish within Alaska, rather than sending out headed and gutted fish, increases the in-state value tremendously.

SENATOR STEVENS recalled that this idea came out of the Joint Legislative Salmon Task Force. Noting it seems very successful, he surmised the big change over the past four or five years relates to the market. Most salmon used to go to Japan, but now it finds markets in the U.S. and Europe. He asked Ms. McDowell to comment.

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SENATOR McGUIRE joined the meeting.

MS. McDOWELL agreed that where the fish go is changing, partly because of excellent marketing; a good reputation; and increased consumer demand for a pure, natural product, a sustainably managed product, and value-added products. Together, those are making a big difference, she added, stressing the forward momentum that needs to be maintained.

SENATOR WAGONER returned to Senator Stedman's question, saying in his district a lot of fish are bled on the boat, iced, brought in, and filleted by hand. But then a machine is used to pick the pin bone. He said he knows of five or six processors that have gone clear to the pin bone stage, which probably doubles or triples the price and value of their product. He opined that this is a highly rewarding bill that should be given the utmost consideration. He added that he has no conflict because he no longer is a commercial salmon fisherman.

MS. McDOWELL added that doing these processes in the communities reduces transportation costs and saves energy because of being

able to get rid of the waste out there and ship a more finished product. It also creates more jobs in the state.

CHAIR HUGGINS asked how the fish are shipped and where the labor comes from for the plants.

MS. McDOWELL replied there is a huge variety for shipping; things are shipped fresh, flown out, frozen in blocks or portions, and so on. With respect to labor, there are thousands of jobs. Some go to Alaskans, but there are complaints about nonresident hiring. The industry is working hard to move Alaskans into skilled labor positions, and there is recruitment in rural Alaska for the processing lines. She indicated PSPA works closely with the labor department on all those issues.

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TOM SUNDERLAND, Marketing Director, Ocean Beauty Seafoods LLC ("Ocean Beauty"), supported SB 248, noting Ocean Beauty is an Alaska corporation, 50 percent owned by the Bristol Bay Economic Development Corporation; it operates seven shore-based plants around the state, with salmon as the primary product.

MR. SUNDERLAND said Ocean Beauty believes this tax credit has done exactly as intended. Salmon prices have increased, and this has allowed modernization of old facilities, speeding the process or encouraging it where it wouldn't have happened otherwise. This keeps jobs in Alaska and moves more value-added production into Alaska, rather than just sending headed and gutted fish overseas or to Seattle for reprocessing; this also creates a higher quality product.

MR. SUNDERLAND explained that putting the machinery in the plants allows greater product variation, minimizing boom-and-bust cycles in the industry related to changes in demand, the market, customers, or currency issues. Ocean Beauty has invested a lot in filleting equipment and skinless/boneless canning equipment. He opined that net revenues to the state from this tax have increased during the time that the credit has been in place, due to the increase in the value of salmon.

MR. SUNDERLAND also said Ocean Beauty believes this credit should be continued because of the amount of time it takes to implement changes. Even if it were financially feasible to make changes all at once, the company couldn't do so because of technical hurdles and the effort and manpower required. Ocean Beauty also takes a lot of time to develop new sales relationships that allow selling new forms of product.

MR. SUNDERLAND reported that Ocean Beauty has used this credit to upgrade its plants at Excursion Inlet, Kodiak, and Alitak. There are continuing upgrades at the Kodiak plant and major upgrades at Naknek. But that leaves three plants untouched that they haven't been able to get to. While the plan is to upgrade them all, it cannot be done all at once.

MR. SUNDERLAND said this program leads to not only job creation, but very good jobs. In 2007, for example, Ocean Beauty used a State Training Employment Program (STEP) grant to bring over trainers from Baader's headquarters in Germany to help Kodiak workers become technicians on some highly complex and advanced machines. He closed by saying Ocean Beauty believes this credit is good for the industry and the state as a whole.

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MR. SUNDERLAND, in response to Senator Green, explained that Baader in Germany has sophisticated machinery used primarily for filleting. The expertise to operate and maintain these machines is extraordinary. To get the best training possible, Ocean Beauty flew Baader's own trainers to Kodiak, thereby creating some excellent jobs, some of the highest paying in the whole seafood industry.

SENATOR STEVENS agreed this results in highly skilled, highly paid American employees in the fish plants.

SENATOR GREEN expressed surprise that STEP money could be used that way.

CHAIR HUGGINS inquired about DOR's position on the bill.

3:55:16 PM

TIM COTTONGIM, Fish Group Manager, Tax Division, Department of Revenue, came forward with Dan Stickel, DOR economist. Mr. Cottongim said DOR has empirical evidence supporting the testimony regarding to an increase in 1) the amount of salmon tax collected, 2) the amount of fillet production, and 3) the ex-vessel value of salmon during the period this tax credit has been in place. Thus DOR sees a benefit to this credit program. However, he'd not had the opportunity to talk with the governor about the administration's position on the bill.

CHAIR HUGGINS asked what it means that DOR auditing had disallowed \$2.5 million in credits.

MR. COTTONGIM replied he believes it means DOR can do a better job of educating customers as to what qualifies and what doesn't. He suggested DOR is challenged to do that if this program continues, which is one reason for wanting to include an outreach program in the future.

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MR. COTTONGIM, in response to Chair Huggins, explained that 50 percent of all taxes collected from fisheries business is dedicated to the communities; that portion isn't affected. This tax credit is taken from the state's 50 percent.

CHAIR HUGGINS asked whether that's how it has always been and whether Mr. Cottongim is satisfied with that.

MR. COTTONGIM replied yes to both. In response to Senator Stedman, he specified that organized cities and boroughs that have processing within their boundaries receive a share of the taxes collected from processing activities in that area.

SENATOR STEDMAN recalled that this tax started in 1914.

MR. COTTONGIM concurred.

SENATOR STEVENS remarked that one big improvement to a nearly perfect bill from five years ago is the addition of the preliminary determination as to whether something will qualify for the tax credit. He asked whether DOR feels comfortable that it can make this determination.

MR. COTTONGIM answered that DOR knows it will be challenging to ensure all the criteria are met in advance. Processors must understand there'll be caveats and requirements to fulfill. Surmising there'll be bumps in the road, he mentioned give and take, outreach programs, and regulations that will afford DOR an opportunity to better work with the industry and educate everyone, in order to avoid as much conflict as possible. Furthermore, if preapproval is denied, a company can claim the credit with its tax return and go through the appeals process. Thus DOR believes there will be sufficient checks and balances so companies can correct any errors that DOR has made.

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MR. COTTONGIM, in further response, explained that it would be the normal administrative appeals process, going through an informal appeal within the division, and then could go outside DOR after that, to the Office of Administrative Hearings.

SENATOR STEVENS said it's short of a legal process, then.

MR. COTTONGIM agreed.

CHAIR HUGGINS noted the preliminary decision appears to be binding, without caveats or qualifiers.

SENATOR STEDMAN moved to report SB 248 from committee with individual recommendations and accompanying fiscal notes. There being no objection, SB 248 was moved out of the Senate Resources Standing Committee.

The committee took an at-ease from [4:02:06 PM](#) at [4:04:50 PM](#).

Presentation: AGIA Applicant AEnergyia

[4:04:52 PM](#)

CHAIR HUGGINS announced the committee would hear a presentation from AEnergyia, LLC, which had submitted an application under the Alaska Gasline Inducement Act (AGIA).

ANDREW L. TABER, Principal Partner, and WILLIAM J. BURKHARD, Principal Partner, AEnergyia, LLC, introduced themselves.

MR. TABER offered introductory comments.

MR. BURKHARD began the PowerPoint presentation, which was accompanied by a handout. Showing a slide labeled "30+ Year Team Commitment," he recalled coming to Alaska to work on the Trans-Alaska Pipeline System (TAPS) in 1979, working on geology, geotechnical engineering, and engineering until 1982. The team he was working with did environmental engineering, geotechnical engineering, geology, hydrology, climatology, thermal modeling, and a few other earth sciences. After this began to resurface in 2000, he gathered the team to try to recapture the earth sciences portion of the pipeline. They completed about half the earth sciences and engineering that would be required.

MR. BURKHARD noted about that time he partnered with Andrew Taber, president and chief executive officer (CEO) of one of California's oldest geotechnical firms. In 2001, as a loose team, they approached the original gas line consortium about the earth sciences portion, but the consortium didn't last. They talked with potential prime contractors and the producers: BP, ConocoPhillips, and ExxonMobil. They also talked with the Department of Natural Resources (DNR) and the Joint Pipeline

Office (JPO) about work on the review side for sciences and engineering. After the AGIA process was put in place, they put in an application to pursue working on the pipeline.

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MR. TABER explained that AGIA looked like a highly advanced opportunity for creative planning; in fact, creativity was requested. But their application was considered incomplete. He showed a slide labeled "Questions," with the following points:

- Why does equity in building and operating a pipeline have to be so complicated?
- If the fundamental effort for all project operational plans is to organize commodities (which are available to anyone with the license), then shouldn't focus be placed on creating the best plan to meet the spirit of AGIA?
- Why does the license appear to be a prize for corporate profit when in reality it is the state's transfer of authority to a group to maximize the benefit to Alaskans?
- If the authors of AGIA asked for creative ideas, why did the completeness review process not appear to embrace creativity?

MR. TABER highlighted the complexity, with tariffs, rolled-in rates and so on. He also said they could see that things like design of the pipeline and construction would be done by the same folks no matter who the licensee was; many things, including the money, are simply a commodity. Reporting that just by applying they've had folks from Wall Street and other sources offer to come up with money for them, he surmised the money is there for a project.

MR. TABER emphasized that they can get the commodities; the license can empower a group to negotiate for those. Furthermore, he said, this doesn't have to be motivated by profit and stockholders, where a corporation "wins" with a great profit margin for the foreseeable future.

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MR. TABER turned to creativity, saying in the areas their application was considered incomplete, their ideas were about making a paradigm shift - a different approach from how the AGIA

process was set up. They'd felt their application was complete and creative.

CHAIR HUGGINS asked: If they were to do it again, how would they do it differently?

MR. TABER noted they'd learned a lot in the process. He indicated their application was clear that this would require a paradigm shift and was out of the box. They might emphasize that creativity more.

MR. BURKHARD suggested a slide labeled "AEnergia 'Shortcomings'" might answer this. It had the following points:

- Failed to propose a project plan that transports gas to market
- Failed to propose a specific route, especially through Canada
- Failed to make Canadian connections, e.g. right-of-way and clearance
- No commitment to expand the pipeline on a commercially viable basis
- North Slope GTP must be FERC certified
- No demonstration of readiness, financial resources or technical abilities to perform the required AGIA tasks.

MR. TABER noted the slide was pretty much verbatim from the letter they'd received that said their application was incomplete. He emphasized their sense that they could have been clearer on the creativity aspect, seeing it as a tremendous opportunity to do things differently. But the details of the AGIA application showed a traditional pipeline approach.

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CHAIR HUGGINS asked whether they'd had face-to-face or telephonic communication with the administration for clarity on any aspects of AGIA while going through the application process.

MR. BURKHARD replied no. They did receive a phone call from the governor and the commissioners right afterward, informing them it didn't fulfill the completeness aspect.

MR. TABER added that during the process it was just what was posted and available to the public.

MR. BURKHARD recalled that DNR Deputy Commissioner Dick LeFebvre couldn't talk to them once the AGIA bill passed, though they'd talked to him right before that. There was a zone where they couldn't communicate with the administration once it passed.

MR. TABER observed that it related to not giving anyone a competitive advantage. Some friends in the state government were in a similar position.

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MR. TABER indicated they'd hoped AGIA would provide an opportunity, rather than the same old pipeline. He drew attention to a slide labeled "Paradigm Shifts" with the following points:

- From a "steel" driven project to an earth science and engineering driven project
- From a producer driven project to a state induced project
- From a single entity builder to a collaborative team
- From a proprietary "closed" project to an open process
- From a "for-maximum-profit" project to a "public service" project
- From a pipeline to infrastructure system
- From the inherent "power" of a large corporation to the "power" of being the licensee

MR. BURKHARD elaborated. Noting steel-driven projects are done in the Lower 48 all the time, he said Alaska is much more environmentally sensitive than most places there. For instance, in Alaska a one-degree operational temperature change could mean disaster related to permafrost or frost heave. Such issues are vital to the success of this project.

MR. BURKHARD highlighted their experience from the last time. He specified that the paradigm shift is to lead this project by

the earth sciences and engineering. Also, they've noticed it's not steel types of issues that run costs up; environmental issues can double or triple a project. So they believe this paradigm shift is appropriate in Alaska.

MR. TABER added this would save money because ultimately it would drive the project; the shift is deciding that from the start. He turned to the second point, saying the producers are the ones with the gas, at least now. Historically, that drives a project. However, the state is inducing the pipeline to be built, and they see a public-private partnership, an opportunity whereby the state could cooperate and collaborate with producers and actually create a gas highway to get gas to market.

MR. BURKHARD noted later they would address other side benefits to having the state more in the driver's seat.

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MR. TABER turned to the third point, saying traditionally there is a single-entity type of builder, though it could be a group like Alyeska. The shift is to think of it as a collaborative team. He asked: If there's a public-private partnership, why not collaborate with a number of people, for instance, having TransCanada do part and the Valdez folks do part? Why not pull all that together under the umbrella of the AGIA license?

MR. BURKHARD emphasized "collaborative" versus "cooperative," noting this also would be addressed later.

MR. TABER discussed the shift from a proprietary closed project to an open process. He said AGIA seems high on integrity, transparency, and getting it done. For many privately financed projects, by contrast, it seems there is more power if information is kept from the public. They saw an opportunity to turn it around and put everything out there.

MR. BURKHARD added that it gives the state the ability to embed regulation and legislative intent into the design, rather than post facto trying to regulate it.

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MR. TABER explained the shift from a "for maximum profit" project - where everyone involved in each part of the process is looking for maximum profit - to a public service project. They'd tried to make their project simple and equitable, with one simple, transparent equity ratio that applies equally to everyone and is set before the project begins. The project

would be treated as a mission. Everyone would either lose or win together. There would be no advantage in withholding information. Instead, the advantage would be in making the project go as well as possible.

MR. TABER turned to the shift from just a pipeline, saying there are exciting infrastructure implications. For instance, there could be an electric rail system powered by electricity generated from gas. Things that are part of the building the pipeline could contribute to Alaska's infrastructure and economy for years to come, and it would be an incremental burden to the cost of the pipeline.

MR. BURKHARD asked, for example: If it's going to cost a certain amount to barge pipe from Seattle, why not apply that same amount towards a railroad and then let another partner pick up the difference? It would cost the project an identical amount, but that money would go towards building infrastructure within Alaska, rather than just being spent on services.

MR. TABER indicated they'd thought perhaps the \$500 million inducement from the state could be used in this way.

MR. BURKHARD, in response to Chair Huggins about the handout, explained that there were extra slides in case of questions.

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MR. TABER discussed the shift from the power of large corporations to that of being a licensee. He reiterated that Wall Street money has been offered and said others would be interested in investing. The license isn't just a license to build, but is also the license to have the power of the authority of the state to take action, he added.

MR. TABER turned to another shift, from project management to critical mission management (CMM). A slide labeled "Critical Mission Management" had the following points:

- CMM is well suited and adaptable to meet the requirements due to project magnitude, time constraints, large number of personnel resources, large number of equipment resources, totality of assets, and multiple funding sources to support the Project, which would overwhelm the normal equivalency of a typical administrative organization.

- CMM initiates and empowers decisive, competent action in real time for all subordinate functional operational sections, then completes the documentation and justification versus the administrative necessity to document a problem and have pre-approval for all actions from upper management prior to any implementation.
- CMM has a command staff with direct subordinate groups which function by passing down objectives rather than by passing down directives, as in an administrative organization.
- CMM incorporates operational decisions made at lower levels where there is the highest level of understanding to accomplish objectives versus the well documented Peter Principle in administrative organizations.
- CMM's organization structure is built from decades of reinvention in the emergency services world, aimed at continuous improvement in responsiveness, safety, accountability and total performance.
- CMM utilizes the approach "Objective accomplishment is everything" versus the administrative "pre-approval and process is critical" organization.
- CMM provides a built-in structure which mitigates and defuses risks as they occur versus the acceptable risks of the standardization of processes.
- CMM is designed for extreme adaptability, regardless of what unusual or unknown circumstances may occur. Team organization and functionality increases or decreases with the demands of the objective at hand.

MR. TABER deferred to Mr. Burkhard, saying this is one of the strengths he brings to the team.

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MR. BURKHARD explained that from 2001-2006 his responsibility was to protect California's water supply. About 75 percent of water that falls as rain there exits through the delta into the bay, but 2/3 of California takes water from the delta for industry, farming, and municipal use. His job was to protect

1,100 miles of levees in the delta against flood failure. About 60-70 areas there once were islands. But because it is subsiding, the whole delta is like a lake with ring dikes exposing the bottom. These islands are 20 feet below sea level.

MR. BURKHARD said with critical mission management they were on call at all times. If there was a storm, potential flood, or leak, they were on site for days, weeks, or months. He found a real strength in the CMM concept and created a similar process here. He highlighted the strength of this system that brings everyone to the table, incorporating all levels of government and private enterprise to protect the system.

MR. TABER indicated large projects lend themselves to being a mission. There is a start, an end, and a goal. These tried-and-true methods can be applied. Surmising that CMM will be the next way to manage large projects, he expressed hope that they'll have the chance to demonstrate this exciting concept. He emphasized working harder on a plan - how to go about it - than just the commodity.

MR. BURKHARD noted NASA uses something similar. If the Hollywood portion of the movie Apollo 13 is removed, some of this concept can be observed in action, a configuration of labor and management to address critical issues.

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MR. TABER turned to the next paradigm shift. Discounting the idea that the assets of a large corporation are needed to carry off a large project, he said a lot of what a large organization does is to coordinate commodities. The shift is seeing things like money and engineering services as commodities in the marketplace; what is required is an organization to purchase them. He showed a slide labeled "Commodity vs. Specialty Item," with the following points:

- A commodity is that which is widely available from multiple sources.
- A specialty item is that which the project critically depends on for its successful design, construction, and operation.

MR. BURKHARD showed the next slide, "Commodity vs. Specialty Items," which had the following list relating to how these items were approached in AEnnergia's application:

ITEM	STATUS
Public-Private Partnership	Specialty Item
Earth Science and Engineering	Specialty Item
Steel Pipe	Commodity
"Steel" Design	Commodity
Financing	Commodity

He explained that the CMM method and public-private partnership is a specialty item because it's not widely available, it's the up-and-coming thing, and it's what AEnergia is good at. They believe earth science and engineering is critical to minimize environmental impacts and downtime for the project, so it's a specialty item also. But the other items are commodities that anyone applying through AGIA would contract for.

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MR. TABER drew attention to a slide labeled "AEnergia Plan," which had the following points:

- Traditional "Alcan" route with Valdez LNG port (partner)
- Kenai Peninsula (partner)
- Two parts:
 - Alaska Natural Gas Pipeline, LLP (ANGL)
 - Gas marking cooperative
- Nexus of all authorities and stakeholders
- Critical mission management
- OSTER
- Royalty in Kind

MR. TABER said AEnergia is open, collaborative, and partnership-oriented. Part of this depends on how much gas there really will be. Highlighting the traditional Alcan route, he said AEnergia would love to partner with the Valdez or Kenai folks and have that be part of the plan. There is no reason not to.

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MR. BURKHARD added AEnergia feels that limiting the gas route from Alaska to the Lower 48 through just one leg has complications. If they partner with folks who want to build a liquefied natural gas (LNG) plant in Valdez and increase the distribution system, he believes that would be best for the state. They'd also like to partner with the folks who want to build the distribution system in the Kenai. That's what the state is looking for, he said, and that is the maximum benefit.

MR. BURKHARD said as the state matures in its gas exploration, who knows where it will lead or how much gas will be found. He surmised the more legs, the better. It distributes the risk and responsibilities, and it makes as complete an infrastructure as possible within Alaska for gas.

MR. TABER noted AEnergia would like to partner with a Canadian component as well.

MR. BURKHARD pointed out that an LNG port is being completed in Coos Bay or North Bend, Oregon, as is one in Mexico. California consumes quite a bit of gas, but its laws don't allow for a cost-effective LNG port into that market; thus those were established in Oregon and Mexico. He suggested this project should take advantage of the infrastructure elsewhere to open up more markets. It appears the Rockies also divide the gas-distribution system in the U.S., he said, without a lot of good communication between Central and Eastern U.S. and the West. This would open up the Western gas market to Alaskan gas.

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MR. TABER explained that the proposal was to create two new companies owned by the group that produces the gas, the state, and the other stakeholders, in accordance with the equity determined at the start of the project, the one they'd suggested in their application. There'd be one company created to build a pipeline, operate it, and maintain it, and it would be a cash-neutral, not-for-profit company.

MR. BURKHARD noted distribution would be addressed shortly, using the acronym OSTER - one simple, transparent equity ratio. If there was a profit made on the pipe, the pipeline would be owned at the same ratio as the gas within the pipe; in a sense, the company would just pay itself through tariffs. The idea is to have one company whose responsibility is simply to get the gas from the ground to the market; its charges to the other company that markets the gas would be at cost.

MR. BURKHARD said it would be cost-neutral, a public service pipeline system that gets gas efficiently and cost-effectively from the North Slope to market. And when the revenues flow back, the most would flow back to the gas owners within Alaska.

[4:41:30 PM](#)

MR. TABER showed a slide labeled "Nexus" that read:

- The gathering of authority groups with (necessarily) divergent stakes to establish common ground objectives
- The roundtable for a mutually beneficial collaboration
- Implements what already exists
- Sets objectives by the hierarchy of stake
- Objective setting within a stake requires authority in that stake
- Objectives, once set, are immediately implemented
- Protected by a veil of delegation

MR. TABER explained that this is how it would be organized. The idea of a nexus is that folks who have anything to do with the pipeline come together and set objectives for the pipeline process in accordance with their stake; if they have no stake, they have no say. The nexus is where the decision making happens. The power hierarchy is according to stake.

MR. BURKHARD said that stake is based on authority. All authority is delegated. The nexus is the idea of bringing all authority together and then producing objectives for the mission from that. It's always in hierarchy, just as law is above need in the legal hierarchy. The nexus is these authorities.

MR. TABER added they'd set objectives to be carried out by CMM team, the "arms and legs on the ground," which AEnnergia also would run.

MR. BURKHARD explained that a veil of delegation protects the nexus from implementation problems and protects the implementation folks from the problems of setting objectives. It works well. For example, the problems in the Apollo space program were attributed to NASA; it never went above that level because there was an effective veil of delegation. He suggested that an authority body needs this protection if it is setting objectives that another group will carry out.

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MR. TABER showed a slide labeled "OSTER" that read:

- One
- Simple
- Transparent
- Equity
- Ratio

He highlighted this as a key idea that AEnergia considers to be within the desire of AGIA.

MR. BURKHARD explained that if one aspect of OSTER is lost, all are. It's one ratio, applied universally for the project. One can see how much Alaska will get and how much the producers will get. There'll be no other taxes. It is all lumped into one ratio, not graduated, so everyone knows the rules. It's a form of fiscal guarantee to the producers, set from the beginning. The process by which moneys are garnered is transparent, with no backroom or special deals. If something is out of whack, it's monetized back into equity. It's simply a ratio.

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MR. BURKHARD reported that the first cut, what they'd thought might be considered fair, was 74 percent for the producers, 25 percent for the state, and 1 percent for AEnergia as the controlling percentage during project design and construction; then that 1 percent would probably also be used and distributed to ensure that other entities are on the same page.

MR. BURKHARD told members the nexus isn't seen often. It's collaborative. Collaboration is when a group of people don't give up rights in order to work together. They find agreement using their own methods and rules. By contrast, cooperation requires acting in unison and giving up rights by the entities, especially at different levels of government. The collaborative nexus is gathering authorities into groups, with necessarily divergent stakes, to establish common ground for the objectives.

MR. BURKHARD explained that if agreement cannot be reached at one level, there's always a higher level of objective where it can be. Whatever agreement is reached is then turned over to science and engineering to implement; that's through the veil of delegation. Designed to head off problems beforehand, it's a proactive approach to leadership. It differs from a board of directors because there's only objective-setting authority within one's own stake. This process keeps everything in order. He paraphrased a slide labeled "Advantages of a Nexus," which had the following points:

- Transparency of processes
- "Clean hands" by all participants (comfortable one degree of separation from other participants and from the issues and decisions and from the implementation)
- Reduction of litigation risk
- Effective objective (and decision) tracking with documentation
- Progressive and adaptive project controls
- Minimal legal agreements because no authority is given up

MR. BURKHARD added that if folks are meeting and setting objectives, it is documented.

[4:51:07 PM](#)

MR. TABER showed a slide labeled "Economics 'Bottom Line,'" which had the following points:

AEnergia's plan maximizes benefits to Alaskans because it provides:

- Maximum revenue because the project is a public service pipeline operated at-cost
- A project with no ROI so it saves Alaskans and the producers +/- 15% of the project cost per annum
- Incentive for North Slope production development because of the lower cost shipping
- Reduced risk because of the multiple routes to the 48-state market
- Distributed risk among partners thereby reducing risk
- Active and participatory direction by the State of Alaska
- Lower cost project because it removes the advantage of running up design and construction costs

- Controlled environmental impact because it is earth science driven not profit driven

MR. TABER elaborated, noting this is how they believe complete AGIA applications will be evaluated. As for how AEnnergia's plan maximizes economic benefits, the companies created would operate on a break-even basis; there'd be no added-in rates or new, surprising tariffs. It would be transparent.

MR. TABER said since money would be simply a commodity, there'd be no ongoing return on investment (ROI). The cost of money would be paid back, but nobody would receive money in perpetuity because of owning the pipe. If the ratio is 25 percent for the state, that's 25 percent of more money than there'd usually be; there isn't 14-15 percent added as a tariff to the pipeline owner. It's part of the public-private partnership.

MR. TABER acknowledged that the incentive for North Slope production development because of lower-cost shipping is a can of worms that must be dealt with. AEnnergia is saying that if there's a pipeline and things can be shipped at cost, new shippers become part of the ownership and the state's share stays the same.

MR. TABER said the volume of gas would rise with new shippers. Shippers who participated in the original deal would have the advantage of getting depreciation on the pipeline. Those that came later would pay the same amount to have their gas shipped and it would be at cost, but they wouldn't get a shot at depreciation. There are further issues, he noted.

[4:54:07 PM](#)

MR. BURKHARD pointed out that expansion should have been addressed a couple of slides ago. He said there are J-curves on the design. There is a lot of information that AEnnergia wasn't able to gather to do its own J-curves, but they'd considered expansion as part of the process. There will be an optimum amount of expansion. The plan is to calculate it with sufficient prebuild so a certain amount of expansion happens at the same cost.

MR. TABER added there's a range, shown by the J-curve, not one precise amount. If they build for the higher end of the range, there is a lot of capacity within that.

MR. BURKHARD noted that relates to further compression.

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MR. TABER returned to the current slide, highlighting reduction of risk because of the multiple routes to the Lower 48 market. He said although they're unsure how the Canadian portion will go, it doesn't hurt to have another market for the gas; this provides another option.

MR. TABER spoke about distribution of risk among partners, saying they believe AEnnergia's plan can pull the key players together using the collaborative approach. Others can come together in the nexus, set objectives, and build or do their part. Also, there'd be participation and direction by the State of Alaska, according to its stake, which would be great.

MR. TABER noted there'd be a lower project cost because of removing the advantage of running up design and construction costs. Citing his engineering experience, he said on large projects often there is redesign, which somebody gets paid for.

MR. TABER said there are two ways this works better. First, everyone is headed the same way, and the "OSTER" ratio doesn't change for anybody, whether something stupid or smart happens. Second, the CMM team controls who does the work. If somebody isn't doing it right or there needs to be a redesign, a person can be fired. There's flexibility to pick the best people for the job, with an opportunity to negotiate prices.

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CHAIR HUGGINS welcomed Senator Joe Thomas and Representative Jay Ramras, noting they'd been present for some time.

MR. TABER highlighted the controlled environmental impact because this is driven by earth science. He said AEnnergia has the best, folks who've worked in Alaska before and are ready to work this spring. Noting in Alaska a year can be lost simply by starting too late, he said they could be on the ground quickly.

MR. TABER showed the next slide, "Benefits to State," with the following points:

- At cost market delivery system for the gas delivers higher net returns.
- State has a direct and integral role in setting project objectives.

- Open and participatory process assures all legislative intent and regulation is adhered to.
- The project becomes the "people's" project not a corporate project generating goodwill.
- At cost market delivery system for the gas encourages North Slope development.

MR. TABER said while the bottom line boils down to money, some of the benefits are different from simple economics.

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MR. BURKHARD opined that an open process like this will generate goodwill, that such a public service project will go over well in Alaska, and that Alaska needs this pipeline. He emphasized that this at-cost delivery system encourages North Slope development because the threshold for making the project viable is now a bit lower. It has higher net returns, other than the OSTER ratio.

MR. BURKHARD characterized this as fiscal certainty from the state because costs of operation are known and all costs are concatenated into the ratio. Noting the producers would be asked to underwrite the outsourcing of the financing or the financing directly, he said if the producers choose to participate they can receive depreciation for the project worth billions. With a limited liability partnership (LLP), depreciation can be assigned. That's what AEnnergia is asking the producers to do as a partner. If they participate, they'll have a greater opportunity to set the design and construction objectives for the project because they'll have a greater stake.

MR. BURKHARD read the following points from the next slide, "Benefits to Alaskans":

- At cost market delivery system for the gas delivers higher net returns into the permanent fund.
- Since the state has a direct and integral role in setting project objectives the impacts of the project are controlled.
- The project becomes the "people's" project not a corporate project.

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MR. BURKHARD turned to the next slide, "Benefits to North Slope Exploration," with the following points:

- At cost market delivery system for the gas means a lower cost threshold for new gas project success.
- Expandability insures capacity for new projects.
- New gas owners participate in directing the delivery system.
- A "people's" project (vs. a corporate project) reduced the threat of public enmity.

MR. BURKHARD said it's not totally about getting the gas to market. It's about whether the producers are locking new folks out of this pipeline. With the OSTER ratio, if the producers participate they'll get 74 percent. The other 26 percent becomes undefined because obviously the state doesn't have gas. That gets opened up to others through an open season.

[5:01:39 PM](#)

MR. TABER added that the producers haven't come forward saying they'd like to support Anergia on its AGIA application. However, Anergia suggests that would be a good play for them. They could then participate in the AGIA process, which would help them steer the direction this could go. The financing and so on can be done without them, but this encourages their participation. He said Anergia sees no reason for the producers to not want to be part of this. If the pipeline is built, the economics will be fair.

MR. TABER offered conclusions. He said Anergia's plan provides maximum benefits to Alaskans, providing a maximum financial return to present and future North Slope resource owners. It allows market forces to work with commodities, which reduce the cost. It creates an organization wherein the good of one is the good of all, with everybody trying to accomplish the mission.

MR. TABER also said it gives the State of Alaska a commanding role in the design and construction, since its license gives someone the authority to make the pipeline happen. In Anergia's case, it taps into experience and uses folks with expertise. And, finally, it provides a tremendous boost to the infrastructure of Alaska as well as jobs and new skills. He cited examples from elsewhere.

MR. TABER expressed appreciation for the openness, transparency, and request for creativity in AGIA, but emphasized that they see this as an opportunity to turn the ideas into reality. Somehow this pipeline must be built. AEnnergia's desire is to be part of that process and to provide solid ideas that can be built on.

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MR. BURKHARD added that AEnnergia's effort in this application has been to turn the AGIA process into an opportunity for Alaska.

SENATOR WAGONER noted they'd talked earlier about a previous attempt to construct a line. Recently there was a question - now settled - about TransCanada's ability to do the project because it might have an \$8.9 billion liability. He asked: If AEnnergia did this project, how would that affect their ability, or would they be using any information garnered through the previous process?

MR. BURKHARD affirmed that they'd try to tap into that old data. He said the information is available, but probably at a price. It was purchased with Northwest's money, and the last he'd heard it was in the hands of Duke Energy after it got a stake in the old consortium. He mentioned perhaps 7,000 bore holes that are critical for this project, since otherwise they'd have to drill them. Also, he said the State of Alaska has done quite a bit of exploration since then, including an aerial electromagnetic survey of the pipeline.

MR. BURKHARD added that a lot of the data would have to be pulled together, but some AEnnergia folks have already worked on the alignment; he had some of the data in his satchel. AEnnergia would pick up where it had left off, obtain that information, and continue. One big change would be the Geographic Information System (GIS). A lot of that data is available for earth sciences. The environmental data would have to be updated quite a bit. But much of the other data hasn't changed.

[5:08:21 PM](#)

CHAIR HUGGINS asked them to share their thoughts on moving through the maze of ideas. He listed potential projects under consideration relating to gas and LNG.

MR. BURKHARD noted each one is separate. He asked why these can't all be pulled together and evaluated for the maximum benefit to Alaska. He said there will be a mix of these processes and systems that makes the most sense, which is the

most robust and profitable for the state. That's what they should go with.

MR. TABER added this is why AEnergia spent so much time on the nexus, which is critical. There has to be a way to get everybody together.

MR. BURKHARD reiterated the concept of going to the highest level of agreement, setting the objective there, and running with it. He said there is a default position that works, and this is a bulletproof way to move forward, getting the earth sciences and environmental work out of the way so the steel design and feed can begin with good input.

CHAIR HUGGINS remarked that this is a way to get innovation into the process. Thanking Mr. Taber and Mr. Burkhard for testifying and applying under AGIA, he wished them luck.

There being no further business to come before the committee, Chair Huggins adjourned the Senate Resources Standing Committee meeting at [5:11:47 PM](#).