

HOUSE FINANCE COMMITTEE  
February 25, 2010  
1:37 p.m.

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CALL TO ORDER

Co-Chair Hawker called the House Finance Committee meeting to order at 1:37 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair  
Representative Bill Stoltze, Co-Chair  
Representative Bill Thomas Jr., Vice-Chair  
Representative Mike Doogan  
Representative Anna Fairclough  
Representative Allan Austerman  
Representative Neal Foster  
Representative Mike Kelly

MEMBERS ABSENT

Representative Reggie Joule  
Representative Woodie Salmon

ALSO PRESENT

Pat Galvin, Commissioner, Department of Revenue; Craig Tillery, Deputy Attorney General, Department of Law; Marty Rutherford, Deputy Commissioner, Department of Natural Resources; Mark Meyers, Alaska Gasline Inducement Act (AGIA) Project Coordinator; Leta Simons, Support Services Division Director, Department of Natural Resources; Harold Heinze, Chief Executive Officer, Alaska Natural Gas Development Authority (ANGDA); Karen Rehfeld, Director, Office of Management and Budget.

PRESENT VIA TELECONFERENCE

None.

SUMMARY

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HB 300      APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 300 was HEARD and HELD in committee for further consideration.

HB 302      APPROP: MENTAL HEALTH BUDGET

HB 302 was HEARD and HELD in committee for further consideration.

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HOUSE BILL NO. 300

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska; and providing for an effective date."

HOUSE BILL NO. 302

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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Co-Chair Hawker discussed housekeeping.

**Briefing on Governor's FY 11 Oil and Gas Requests:**

PAT GALVIN, COMMISSIONER, DEPARTMENT OF REVENUE, stated that prompted by the issuing of the Alaska Gasline Inducement Act (AGIA), a portion of the budget had been set aside to fulfill the state's obligation to the AGIA reimbursement fund, and to ensure that the department managed the responsibility of reviewing the reimbursement requests on order to determine what qualified as a reimbursable expenditure. The request would also fund the auditing of the reimbursement fund.

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Commissioner Galvin stressed that in order for the gasline project to become a reality, discussions regarding the state's fiscal system, in relation to gas commercialization, would need to continue. He pointed out to the committee the two primary budget items located on the "Governor's FY 11 Gasline Appropriation Requests" (copy on file). Line 7 illustrated the departmental request of \$1.1 million to form an "AGIA Reporting System and Fiscal Systems Analysis to Support Negotiations of Gasline Fiscal Reimbursement Fund" and Line 8 listed the \$1,550,000 request to form the "Fiscal Systems Analysis to Support Negotiations of Gasline Fiscal Terms and Audit of AGIA Reimbursement Fund". The creation of

the positions would allow the department to retain the knowledge gained in relation to understanding the state's fiscal system, and it's involvement in the commercial operations of a gasline. He believed that having commercial analysts within the department was a critical function for making informed policy decisions.

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Co-Chair Hawker referred to the handout "Department of Revenue Status of FY 10 Gasline Appropriations" (copy on file). Chapter 6 of the Statutory Law of Alaska (SLA), or SB 82, was an original appropriation of \$3 million, a significant portion of which was spent before FY 10. The multi-year appropriation was outstanding thorough FY 12. He queried the spending hiatus taken by the department in FY 10. Commissioner Galvin replied that the funds listed were in anticipation of the escalating fiscal discussions. The department could not predict when the discussions would occur. The money was retained in reserve under the assumption that the discussions may not follow a budgetary cycle. The availability of the funds had been factored into FY 11 request. The combination of the two appropriations would be considered the funds available moving in the FY 11 timeframe.

Co-Chair Hawker understood that the money would be needed in FY 11, in combination with the additional requests. Commissioner Galvin replied in the affirmative.

Co-Chair Hawker asked if the contractor services to finalize the department's AGIA regulations were under the commercial rules required by statute to be completed before the commencement of the open season. Commissioner Galvin answered yes. He stated that the regulations dealing with the value of the gas for the purpose of taxes needed to be established. The department had worked with the Department of Natural Resources (DNR) to utilize the same contractor to provide the commercial framework for determining the methodology for valuing the gas on the royalty side, and the tax side. In the interest of the tax payer, work had been done to keep the taxes and royalties equal. The expectation for the remaining funds was to retain a contractor to respond to the comments that were received during the public comment period.

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Co-Chair Hawker queried the source of the \$550,000,000 adjustment from the Office of Management and Budget (OMB). Commissioner Galvin believed that the funds had been released by the Department of Law (LAW) to OMB; OMB then turned the funds over to the Department of Revenue (DOR). He

gave assurances that the money had been with LAW at the end of FY 09, but was unclear of its origins.

Co-Chair Hawker understood that with the position requested on Line 7 of the governor's request, the department intended to manage the account of the reimbursement requests of the licensee. Commissioner Galvin stated that that was correct. Co-Chair Hawker expounded that the \$140 million request seemed an excessive salary to be paid for tracking the reimbursement expenditures on the development for one year. He pointed out to the commissioner that the department had \$3 million of unspent funds, allocated for information technology (IT) improvements that had sat unused for 2 years.

Commissioner Galvin clarified that the request was intended to be a one-time request in order to establish the information system needed. He furthered that the information requirements of the system listed on Line 7, were independent of what would be necessary for running the rest of the tax programs operated by the department. The unused \$3 million was part of separate on-going projects, both related to the eventual development of a comprehensive information system for all tax programs, and utilization to upgrade equipment within the department. He reiterated that the line item in the current budget was to create a system that would be unique to the reimbursement request, and was not intended to be an on-going budget item.

Co-Chair Hawker wondered what kind of information system was being developed. Commissioner Galvin said he would need to refer to an IT technician on the matter. Co-Chair Hawker maintained that the complexity of the position requirements, that would garner such a large salary, eluded him. He requested further explanation as to why it was going to cost the state \$1 million to track the expenditures. Commissioner Galvin clarified that the line item was a combination of 2 different things; \$300,000 was for the information system, and \$800,000 was for the commercial analyst position. He noted that the figures were wrongly merged into one on the spreadsheet.

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Co-Chair Hawker clarified that the request was for \$800,000 to fund 4 commercial analyst positions at \$200,000 per analyst, per year. Commissioner Galvin replied in the affirmative. He explained that the intent was to hire people with extensive industry experience in order to provide a greater understanding within the department. He likened the positions to the audit master positions within the department. He felt that it would add to the knowledge base and was worth funding. He believed that the salary would attract the caliber of employee that the department was

seeking. Co-Chair Hawker noted that there had been controversy over whether the audit masters had been utilized as they were intended. He maintained his concern with the request. Commissioner Galvin communicated that representatives from the department could further explain the work done by the analysts and its value to the state.

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Representative Austerman asked if the "Governor's FY 11 Gasline Appropriation Request" handout tracked with the "Historical Summary Gasline Related Appropriations FY 04-FY 10"(copy on file).

Co-Chair Hawker apologized that the current and historical requests had not been presented clearly and for comparison.

Commissioner Galvin added that yes, the sheets were comparable to the extent that they described the same information. The historical summary listed budget appropriations that were connected to expenditures that were made during FY 09, and were detailed in the "Alaska In-State Gas Pipeline Project Budget Summary" packet. He stated that Line 16 of the historical Summary tracked to the numbers under "Ch6 SLA 07 (SB82) Commercialization North Slope Gas" (CAP) illustrated on the status of FY 10 gasline appropriations sheet.

Co-Chair Hawker identified that the "Ch27 SLA 09, (HB177) North Slope Gas to Market (OP) could be tracked to Line 16, Page 2 of the historical summary.

Commissioner Galvin interjected that Lines 17 and 18 of the historical summary pertained to ANGDA, and would be discussed later in the meeting.

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Co-Chair Hawker stated that there was \$353,000 left from the FY 09 appropriation which he could not track on the historical summary. Commissioner Galvin relayed that he would get back to the committee with the information. He believed that there had been no FY 09 expenditures made from the appropriation that would fall into the categories listed on the historical summary.

Co-Chair Hawker reminded the commissioner that the committee had requested information for all money and appropriations that were active and available. He apologized again to the committee that the information was incomplete.

Co-Chair Hawker wondered if the department had the legal authority to make Exxon Mobile Corporation (Exxon) and TransCanada pay for the incurred cost to the state as a

result of the project. He argued that Exxon could more than afford to pay the cost to the administration. Commissioner Galvin replied that the expenses for the hiring of commercial analysts, and consultants to oversee the fiscal system were not items that would be reimbursed by the industry.

Co-Chair Hawker contended that industry was directly benefiting from the half billion dollars that the state was spending on the project.

Commissioner Galvin thought that two different issues were being unclearly combined. He said that the state would not charge the industry for the cost of implementing the system necessary for determining if the industry expenditures qualified for reimbursement. He understood that the question was whether or not state had the right to ask the industry for reimbursement for the cost of the creation of the information system. He felt that the creation costs should be separated from the expenditures that were associated with developing a fiscal system that related to the development of the gas project. In the instance of the development of a gas project, the funds were not exclusive to one project or the other, if the state made a change in the fiscal system it would apply to any project that moved forward. The implication that the development of the fiscal system was for the sole benefit of the AGIA licensee was a misguided notion. The fiscal system was being developed to protect the state's interest with any gasline project that went forward.

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Co-Chair Hawker maintained that the costs that had been specifically identified with the AGIA pipeline should be charged to the company that agrees to the project. He thought that the company that was causing the state to incur the cost should be responsible for reimbursement of the cost. Commissioner Galvin rebutted that the department did not believe that it would be beneficial to entities operating in the state, whereas a permitting expenditure was for the purpose of providing a particular applicant with a particular response. He expressed concern with billing the industry for the cost of developing state tax policy in the expectation of a tax discussion. He wondered how the state would determine who to send the bill to.

Commissioner Galvin understood that the suggestion was that the state should find a way to limit the amount of general fund spending for consultants and commercial analysts by passing the cost onto the industry. He claimed that he did not know a methodology in which that could be done. He wondered if it was wise to pass on the cost of the state's decision making about tax policy, to the companies that would be paying the tax.

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Co-Chair Hawker repeated that a charge back system for the cost of building a fiscal structure to audit the companies was not unreasonable. Commissioner Galvin felt that the question would depend on how extensive the review needed to be. If the cost were going to be passed on to the licensee, the licensee could suggest that the state be less rigorous in its evaluation.

Co-Chair Hawker agreed to disagree.

Representative Kelly attempted to examine the question from a different perspective. He asked if there was a possibility state could request some reimbursement. Commissioner Galvin explained that with a permit, the applicant was looking to do something that they do not have a right to do, which obligated the applicant under state law to get permission through the permit to do it. In the context of the reimbursement requirements, that applicant had a contractual right to reimbursement. The state then had the opportunity to evaluate the reimbursement request to determine how much should be paid. The applicant had the contractual right to the full amount. The effort that the state put into the evaluation would be commensurate with the amount of scrutiny put into determining if the full amount of the request would be paid. He felt that passing the cost of the evaluation onto the licensee was different that passing the cost onto a permit applicant.

Representative Kelly asked if the department had been careful to clearly identify the non-reimbursable items for all parties involved. He assumed that the department had considered the question of cost reimbursement and had determined that it was not sound policy. Commissioner Galvin clarified of the \$2.6 million illustrated on Lines 7 and 8 of the gasline appropriation request, \$350,000 was attributable to the AGIA reimbursement account. The remaining \$2.3 million was unrelated to the AGIA reimbursement account, and would fund analysts not specific to AGIA.

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Commissioner Galvin said the amounts requested were for viable and necessary projects. He felt the information would be beneficial in future legislative cycle discussions. He believed that the reference to the remaining balance was an example of funds being available when they were needed.

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Representative Doogan requested an explanation of Line Items 7 and 8 of the "Governor's FY 11 Gasline Appropriations Request". He understood that \$350,000 of the aggregate amount of \$2.65 million was the AGIA reimbursement account, but was unclear about what the rest of the request was for. Commissioner Galvin explained that line 7 was comprised of \$800,000 for the 4 commercial analyst positions, and \$300,000 for the AGIA information system development. Line 8 represented \$1.5 million for contractual support for the fiscal system analysis; \$50,000 was for the outside audit of the AGIA reimbursement fund.

Representative Doogan asked what the \$1.5 million left over would be used for. Commissioner Galvin responded that the funds were for the fiscal analysis contractual support. Representative Doogan asked what that support entailed. Commissioner Galvin relayed that the support meant bringing in outside services to provide contractual support as to how the fiscal system worked; both with, and without the gas project.

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Representative Doogan asked if "fiscal system" meant "tax policies". Commissioner Galvin replied yes.

Vice-Chair Thomas inquired about Line Item 11, the request for \$10,000,000 for the Municipality of Anchorage: Port of Anchorage Expansion.

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET responded that the decision to include the Port of Anchorage in the governor's capital budget was based on the port being a central port that brought in goods and services related to pipeline infrastructure development.

Vice-Chair Thomas asked if any other ports that had been identified similarly, had been given the same amount. Ms. Rehfeld replied that there were a number of potential port and road improvement projects that would be important for the gasline. At this point the entire list of projects had not been identified.

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Vice-Chair Thomas expressed concern that only one port was chosen for funding. He believed that ports in Haines and Skagway were equally important. Ms. Rehfeld responded that the Department of Transportation and Public Works (DOT/PW) was working to identify port needs around the state.

Co-Chair Hawker added that the house and the senate had agreed that the governor's request to use funds held by the Alaska Housing Finance Corporation (AHFC) for future capital

projects was inappropriate. He reminded the committee that the source of the funding for projects should be considered in budget discussions.

Vice-Chair Thomas understood that under AGIA, the oil companies would be fiscally responsible for improvements to any of the ports involved in the gasline.

Representative Doogan pointed out that a number of appropriations had been made to the Port of Anchorage over the past few years. He asked whether the port expansion was related to the gasline. Ms. Rehfeld replied that the administration felt that the AHFC fund source was appropriate for the gasline and gasline related projects.

Co-Chair Hawker categorized the request as another general expansion of the port, not related to the gasline. Ms. Rehfeld concurred that it was another installment into the Anchorage port. Ports throughout the state would need improvements in preparation for a gasline.

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CRAIG TILLERY, DEPUTY ATTORNEY GENERAL, DEPARTMENT OF LAW, introduced his support staff. He directed the attention of the committee to Page 8, Line 55 of the historical summary. The original appropriation had been for \$2,950,000, of which \$3.5 million had been allocated to the Department of Law. At the end of the fiscal year it became apparent that the department did not need the entire appropriation, so the remaining funds were reallocated back to the governor's office.

Mr. Tillery stated that of the \$2,950,000, the department expended \$1,250,000. The remaining \$1.7 million would be approximately what the department would need for FY 10; the entire amount was to be spent on one contract. Under the administrative manual, the department encumbered the \$1.7 million for the contract, and did not have an appropriation this past year. It was anticipated that the department would spend the full \$1.7 million this fiscal year.

Co-Chair Hawker asked what the department was spending the money on.

Mr. Tillery explained that in the past, the funds had been expended on outside counsel. The majority of the funds had gone to the law firm of Greenberg-Traurig. The firm had assisted the department with an analysis of Federal Energy Regulatory Commission (FERC) rate making practices, the federal open season requirements, use of precedent agreements for firm transportation capacity, an analysis of the AGIA licensee's project plans, and the successful request for a waiver of FERC capacity provisions to reduce

risk to potential shippers. A small amount had gone to the firm of Bennett-Williams in order to handle some of the Canadian aspects of the gasline.

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Mr. Tillery stated that the department anticipated using the \$2.5 million appropriation request of the coming fiscal year to pay Greenberg-Traurig. The funds would be used for continued monitoring of the pre-filing process, various FERC issues, transportation agreements, and FERC filings related to the certificate of public convenience and necessity, and certain activities related to the Canadian regulatory issues.

Co-Chair Hawker asked if the department anticipated using the full 2.5 million in the next fiscal year, or would it be a multi-year utilization. Mr. Tillery replied that the department anticipated fully using the funds in the coming fiscal year.

Representative Doogan referred to the gasline funding history handout distributed by the department (copy on file). In FY 09, \$3.5 million was transferred from the governor's office to the department. Then, at the end of 2009, \$1,697.2 was encumbered for an existing contract with Greenberg-Traurig. He asked if the remainder of the \$3.5 million had been spent. Mr. Tillery responded that the rest of the money had been spent, or had been returned to the governor's office for reallocation. Representative Doogan clarified that the \$550,000 was coming from the funds. Mr. Tillery replied in the affirmative.

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MARTY RUTHERFORD, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, introduced her support staff. She stated that there were several components associated with the gasline that were currently being explored by the department. Work was expected in the area of license compliance, which was an obligation associated with AGIA statute AS. 43.90. This was the technical and engineering design timeline of the gasline project. Part of the plan involved what was going to be done in terms of expenditures. Commercial aspects included ensuring that open season filing was responsive to the requirements of AGIA and making certain that the net present value did not negatively affect the state. There were AGIA incentives associated with royalty tax and license regulations. Then there were the regulatory and environmental aspects of overseeing the project as it progressed. She relayed that the AGIA project was responsible for ensuring that gas was available for in-state use, and that there were adequate off-takes located in

appropriate locations. There were at least 5 off-takes expected.

Co-Chair Hawker understood that the department was optimistic about the project.

Ms. Rutherford said that the department believed in the viability of the project. She stressed that the department wanted to begin preliminary work as soon as possible.

MARK MEYERS, ALASKA GASLINE INDUCEMENT ACT (AGIA) PROJECT COORDINATOR, all aspects of energy resources and interest should be considered in competitive benchmarking. The AGIA project was a gateway that would open the entire North Slope to natural gas possibilities. Various things need to be examined and monitored to make the project a success.

Ms. Rutherford said that the state was moving into a new generation of oil and gas development. She believed that natural gas was going to become a very important part of the state's economy. She urged that many models and aspects needed to be examined.

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LETA SIMONS, SUPPORT SERVICES DIVISION DIRECTOR, DEPARTMENT OF NATURAL RESOURCES, referred to the handout prepared by the department (copy on file). The department drew funding from four different areas related to the gasline; most of which had carried over from prior years as far back as FY 05. A multi-year operating appropriation for right-of-way permitting had an available balance of \$2,996,700, which had been reappropriated, and would be used by June 30, 2011.

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Ms. Rutherford interjected that the money had been appropriated for use associated with right-of-way activity, and was not specific to the AGIA licensee. The most recent expenditure of the funds had been for a part-time employee with the joint pipeline office, who would be responsible for gathering general information and doing pre-application work. Some of the remaining balance would also be used for the purpose of public access to Light Detection and Ranging (LIDAR) of the mainline pipe from the North Slope to the Canadian border.

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Mr. Myers added that LIDAR was necessary because there was a section of route near the Canadian border that contained large geologic faults. The corridors for the pipeline were narrow, and a wider one was needed in order to understand any possible geologic hazards. Locating and identifying any

active faults was a priority to alleviate litigation and project delay.

Ms. Rutherford continued. She stated that work had begun with DOT/PW and DNR to identify additional raw material sites. Existing material sites were contaminated and gravel would need to be found elsewhere. She stressed that the department would only use the funds when appropriate.

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Co-Chair Hawker highlighted the line item found on Page 9, Line 69, of the historical summary. He noted that the appropriation on Line 69 had been originally appropriated in 2008, and was then re-appropriated in the 2009 budget. He understood that the short description of the project requested funds for the permitting and application processing for the right-of-way work related to bringing North Slope gas to market. He said that entering into the FY 10 budget year the department had \$2.9 million, of which only \$22,000 had been expended. This meant that the department was still sitting on nearly the entire appropriation. He asked if all the work the department needed to do in FY 09 was accomplished with only \$22,000. Ms. Rutherford replied that the \$22,000 was only associated with the employee that had been assisting in the joint pipeline office. The LIDAR purchase was estimated at \$500,000 and would be paid for out of the original balance.

Co-Chair Hawker wondered if the money spent on the permitting and application processing should be billed back to the applicant. Ms. Rutherford replied that the department had worked diligently to clarify in the agreement what the state would be reimbursed for. The licensee was entitled access to a coordinators office by statute, and general funds were being requested for that. Beyond that, RSAs were in place to reimburse the state. The money associated with the appropriation went beyond the normal pre-application and application for a right-of-way. It explored where additional material sites, for any project, were located, and how the state as a sovereign held companies responsible for contaminated sites. She stated that the responsibilities covered in the request were sovereign responsibilities and not things that could be directly billed to an applicant.

Mr. Myers added that the environmental cost of putting up a project of this scale was 100's of millions of dollars. The department understood that changes in the National Environmental Policy Act (NEPA), Environmental Site Assessment (ESA), fish and stream crossings, and air and water quality laws had created a challenge to accelerating development projects in the state. The detail permitting work was reimbursable, but prior to that time, the best way to get the project going was help assure environmental

regulatory certainty for the industry. He furthered that the concept of using general funds in the AGIA license was based on the premise that the state could help to assure the certainty of a gasline by getting agencies working together to fill in data gaps prior to application.

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Representative Doogan referred to Page 9, Line 69 of the historical summary, which illustrated the balance amount \$2,940,100. He compared the figure of \$2,981,000 detailed on the department's handout. He queried why the numbers were different. Ms. Simons explained that there were several multi-year appropriations, which resulted in more than one balance on the spreadsheet. There was the \$2,940,100, plus \$5,700 left over from another appropriation (Page 1, Line 11), and a balance of \$900 found on Page 9, Line 67. She concluded that the total was made up of many small balances.

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Ms. Simons continued. She said the request from FY 10 for \$3.2 million was on track with the FY 11 request. The funds were used for consultants in support of the AGIA contract. A list of consultants and the different contracts they worked on could be made available.

Ms. Rutherford explained what had been done with current year appropriations. Of the \$3.2 million, \$1.3 million had been spent; \$1.5 million had been encumbered. The estimation was that the balance of approximately \$272,000 would lapse. The department was using \$690,000 in association with a company called PINGO International for project plan monitoring of the AGIA licensee's pipeline project. The department had also allotted \$364,325 to be paid to Black and Veatch for economic risk modeling, which was the primary instrument used to calculate net present value and examine the risks associated with the commercial aspect of the project. The company had also been working on AGIA royalty reduction regulations. Energy Capital Advisors/Energy Project Consultants had been paid \$197,876 for a commercial advisor to monitor and review the licensee's commercial and overall project plan, and provide assistance to state policy makers regarding various commercial measures the state may take to increase the likelihood of project success. The department had paid Blaskovich Services, Inc. \$138,746 for an oil and gas planning model and gathering large volumes of relevant data and meeting with state policy makers to determine the framework needed for an Alaska Oil and Gas Energy plan model.

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Representative Gara expressed that the consulting process was seemingly unending. Ms. Rutherford explained that Black and Veatch and Energy Capital Advisors had been involved during the analysis of the proposed partnership between the AGIA licensee TransCanada and Exxon. The relationship was commercial and the department wanted to ensure that nothing in the partnership would obviate the responsibilities to the state under AGIA. Outside experts helped to question and analyze the complex commercial documents that were part of the process and were not on retainer, but hired for specific projects.

Mr. Myer added that Exxon and TransCanada had varying business practices and expectations in terms of contingency. The state needed to know if the legitimate rates the companies charged were fair and reasoned rates for the reimbursable components. The department had a responsibility of due diligence to examine the dynamics as the companies changed and integrated.

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Mr. Myer said that the efforts being made to create the gasline were complex and experts were necessary. The geo-technical aspects of the pipeline would also require expertise. Huge cost variations could occur depending on the modeling of the physical pipeline. He asserted that the state should have a deep understanding of the economic factors involved in the project. He assured the committee there were many constant elements that came into play within the project's viability.

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Ms. Rutherford furthered that project changes that were significant enough to negatively affect the state's net present value needed to be recognized early on. The outside consultants were assisting in providing up-to-date information necessary for the state to make knowledgeable decisions moving forward.

Representative Gara asked if the administration would provide a status report of the continuing viability of a gasline.

Mr. Myer responded that the updates were being presented incrementally. He cited a talk on shale gas presented to the committee in the past. He believed that it was an advantage to have capacity built with shale gas, 90 percent of new electrical generations came from natural gas. A trend which would likely continue if the EIA forecast was correct. The growth in natural gas demand would force an examination of the supply balance and cost structure of the product. He stressed the importance that the state understood current

commercial information in order to comprehend the economic fluctuations that were expected. He stated that how the state's product would compete with Shell Gas was a legitimate question and should be explored by experts.

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Mr. Myer asserted that the administration did not anticipate a fundamental loss in the financial viability of the project.

Ms. Simons continued to discuss the FY 10 base budget illustrated on Page 2:

**FY 10 Base budget for AGIA Coordinator's Office - \$681,700, AR 37093**

Current expenditures are \$360,725 in personal services, \$64,576 in travel, \$49,724 for services, and \$6,775 for commodities: Total of \$481,800 which is 72 percent of the FY 10 budget. An additional amount of \$35,100 had been encumbered.

**Capital Improvement Projects (CIP) - \$4,785,160 for two projects:**

Gasline Corridor Hazards Evaluation, \$785,160 available from FY 08 and FY 09 CIPs, AR 40774 & AR 40841 - Division of Geological and Geophysical Surveys:

- \$267,827 had been used to pay contractors including Costal Helicopters, Inc., Michael Smith, University of Alaska Fairbanks, Carver Geologic, and Alaska Aerofuel.
- \$79,333 has been used for in-house expense in the Division of Geological and Geophysical Surveys for personal services, travel, services and commodities for the project manager.

**Reservoir Modeling Studies, North Slope - \$4.0 million available from FY09 CIP, AR 40852 - Division of Oil and Gas:**

- \$657,400 was used to pay contractor PetroTel for completion of a study in the NorthStar unit.

Ms. Simons stated that another \$2.9 million in contracts had been written against the \$4.0 million, but that the department encumbered task orders and not contracts. As the task orders were lined up the department would begin encumbering the balance.

Co-Chair Hawker clarified that that explained why little of the FY08 authority appeared to have had been spent.

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Ms. Simons continued on to the FY 11 budget request. She broke down the Governor's FY 11 Gasline Appropriation Request for \$4,217,500. For FY 11 the department was requesting \$2.3 million to pay for consultants.

Ms. Rutherford added that the request was \$1 million less than FY 10 because the department would not be doing the AGIA regulations; the funds were a continuation for the requirements associated with overseeing the AGIA activities.

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Representative Austerman asked what the FY 10 one-time appropriation was. Ms. Rutherford explained that the request had been for \$3.2 million for FY 10, and was \$2.3 for FY 11.

Co-Chair Hawker understood that the \$2.3 was encompassed in the \$4.2. Ms. Rutherford replied in the affirmative.

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Ms. Simons said that also encompassed in the \$4.2, was a \$1,444,000 increment for the base budget for the AGIA coordinators office. The increment would add 4 new positions and would cover travel expenses and office space; lease space and telephone activity had not yet been written into the budget. The final item was \$477,500 for AGIA outreach geared to provide information to stakeholders.

Co-Chair Hawker noted that the governor's request would be discussed in future supplemental request hearings. In that context he wondered if the department had asked for an after the fact reimbursement from the industry, or was approval from the legislature being sought before action was taken.

Mr. Myers said the department had money to pay salaries for approximately two months, and no travel money left. The hope was that the supplemental request would be approved. The department was not yet in deficit spending, but at the current rate of spending, in order to continue the necessary work, more money was needed. He referred to a subcommittee document that explained the level of detailed work going forward. He stressed that because the state passed the law, and the legislature approved the license, the licensee was obligated until 2014 to acquire the FERC certificate which required an EIS. The limited timeframe of the EIS required the regulatory work to continue regardless of the commercial results of the open season. The environmental regulatory work, the engineering, and the outreach to acquire permits, would be mandatory per the obligation under the AGIA license.

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Co-Chair Hawker revealed that the committee had not received the sub-committee document mentioned by Mr. Myers. Mr. Myers offered to provide the document to the committee.

Mr. Myers relayed that FERC was anxious to begin the work. Under federal law they had 18 months to complete the EIS once the application was submitted. The permitting work to complete the field work was currently happening. The agency planned on engaging in coordination on the GIS system. Both the federal and state government was working to gather as much public data as possible. The four new positions; pipeline coordinator, habitat biologist, administrative office support, and project assistance for website and GIS work, were required. Communication with the public on the progress of the project was also a priority.

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Ms. Rutherford interjected that public outreach needed to be improved and not maintained.

Co-Chair Hawker estimated that the department was constantly aware of concerns over the viability of the project. He perceived that it was the responsibility of the legislature to consider the question. He wondered if the project were to be assessed with a purely objective eye, would it appear to be a viable and successful project. Ms. Rutherford believed that project was still in good shape. The differential between the price of oil and gas was a change from past practices. Based upon the information received from outside experts, she was 65-70 percent sure. She admitted that various concerns existed, but felt that the project needed to be moved forward. She asserted that oil was on the decline and an alternative source was greatly needed.

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Vice-Chair Thomas declared that had he known that the state was going into the joint venture with Exxon, he would have voted against AGIA. He asserted that what the corporation had done to the commercial fishing industry in the state, and Alaska as a whole, was disastrous. He asked if AGIA or DNR was responsible for the recommendation of putting aside \$10 million for the Port of Anchorage. Ms. Rutherford believed that the decision had been made by OMB. The Department of Natural Resources was working with DOT/PW to examine all infrastructure needs throughout the state. She emphasized that DOT had lead discussions concerning where infrastructure improvements should occur. She could not elaborate on the \$10 million dollars for the port.

Ms. Rutherford clarified for Representative Thomas that TransCanada was the AGIA licensee and not Exxon. TransCanada was the entity responsible for ensuring that the project

moved forward under the rules of AGIA, if Exxon reneged, TransCanada would still be responsible. She stated that the issue had been closely scrutinized.

Vice-Chair Thomas maintained that Exxon's involvement in the project, in any way, made him uncomfortable. He said that the people he represented, mainly fishermen, were still unnerved by the idea of having Exxon involved at all.

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Mr. Myers added that Exxon was a challenging company in their devotion to the bottom line. However, in order to move a large project forward, all the major producers would need to be involved. He asserted that Exxon had the expertise needed to make the gasline a success. The company was capable and engaged, and their products were world-class. He shared that when the energy mix for the country was examined, and what the project could deliver to North America was assessed, the natural gas pipeline was environmentally acceptable. He said that natural gas was supported in the environmental community, and the state could open up a 50 to 100 year supply for the country. He contended that the increase in energy demand could not be ignored. He alleged that as the population in the country grew, particularly in the lower 48 states, access to exploration would be restricted. Alaska natural gas was the future, and was a very valuable resource. The policy implications of the pipeline were huge for the nation. Strategically, from many perspectives, the project makes a lot of sense.

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Mr. Myer acknowledged that there were many aspects of the plan that were still out of alignment, but queried the alternative for the nation of not moving forward with the project.

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Co-Chair Stoltze called for the administration to follow up on the questions raised about the Port of Anchorage request.

Representative Doogan ascertained that the state was engaged in a \$500,000 endeavor to build the gasline. He understood that the state needed to be up-to-date with information concerning the project, but expressed concern of using tax payer money to satisfy passing concerns about the pipeline. He expressed concern about wasting funds on research that could prove unrelated or irrelevant to the state's interest. Ms. Rutherford replied that the money spent to date had been spent on necessary research. As a sidebar, some of the information learned would be important for the future

management of gas activity, and was learned in response to AGIA demands.

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Mr. Myer explained that the number of state bodies that had been added to state government to manage the project should be examined. He shared that DNR had added 3 positions, but that all the other departments were doing the gasline work part-time. The lack of positions had had an effect on the state's ability to deliver final product, and had added to problems with workload continuity. The project was a 10 year project which was long term and continuity of staff. He maintained that the expertise of the added positions would be beneficial, and that building structure into the process was critical. The state's ability to understand the issues and react with expertise was, and would be, necessary. He concluded that change needed be made to handle the magnitude of the project, and that the financial burden for the change should not rest solely on the licensee.

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Representative Kelly voiced appreciation for the discovery process Co-Chair Hawker had orchestrated by requesting presentations from all the state departments involved in the gasline project. He expressed excitement for the project and the industry players that were involved. He suggested that the public should be better informed.

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Representative Kelly thought that the \$500,000 request should be revisited. He expressed that TransCanada was excited about the project and should be trusted as a partner. He concluded that there were issues that needed to be examined but that the project would pay out steadily for at least 10 years.

HAROLD HEINZE, CHIEF EXECUTIVE OFFICER, ALASKA NATURAL GAS DEVELOPMENT AUTHORITY (ANGDA), briefly answered questions concerning past expenditures. He said that there had been appropriations in the capital budget in FY 05, FY 07, and FY 08, to ANGDA. At the beginning of FY 10 there was \$7 million of the appropriations that was unexpended. Of that, \$1.7 million had been spent in FY 10. There was \$2.6 million in contracts, \$1.9 million of which was in three large contracts. Approximately \$300 thousand was unspent. The encumbered money would be spent within the fourth quarter of the calendar year, bringing that chapter of ANGDA to a close. At that point the EIS for the Beluga to Fairbanks project should be completed, and would be ready to hand over to a private sector company. The request for \$300 thousand in the operating budget was intended to pay for salaries and

office space, and was consistent with past budget requests. He pointed out the several bills had recently surfaced that implied future work for ANGDA and that hopefully funding provisions would be reflected in the fiscal notes.

Co-Chair Hawker asked how well ANGDA got along with the railroad. Mr. Heinze replied that the railroad and ANGDA could become the best of friends.

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Co-Chair Hawker assured Mr. Heinze that if further work was requested of ANGDA it would certainly be addressed in a fiscal note.

Mr. Heinze said that ANGDA would work with any party in order to have a successful outcome. He hoped there would be other opportunities for discussion.

[3:58:13 PM](#)

Co-Chair Hawker discussed housekeeping.

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ADJOURNMENT

The meeting was adjourned at 3:58 PM