

SENATE FINANCE COMMITTEE
April 14, 2009
9:15 a.m.

9:15:51 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:15 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Johnny Ellis
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Senator Kevin Meyer, Sponsor; Representative Jay Ramras, Sponsor; Paul Fuhs, Legislative Director, Alaska Gasline Port Authority (AGPA); Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor; Larry Persily, Staff, Representative Mike Hawker, House Finance Committee Co-Chair.

PRESENT VIA TELECONFERENCE

Steven Cunningham, City Clerk, City of Houston, Alaska.

SUMMARY

SB 171 "An Act relating to the permanent fund dividend of an otherwise qualified individual who dies during the qualifying year; and providing for an effective date."

CS SB 171(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached new fiscal note 1 by the Department of Revenue.

SB 177 "An Act repealing the termination of licensing and regulation of sport fishing operators and sport fishing guides and licensing and registration of sport fishing vessels; and providing for an effective date."

CS SB 177(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached fiscal note 1 by the Department of Fish and Game.

CS HCR 2(RES) am

Requesting the governor to provide energy security for all Alaskans first by pursuing development of a natural gas bullet pipeline from the North Slope to the Cook Inlet region; and requesting the governor to identify and negotiate where appropriate with one or more persons capable of producing natural gas from the Gubik area, and other areas on the North Slope if necessary, in sufficient quantities to support the energy needs of Alaskans and a bullet pipeline project.

SCS CS HCR 2(RES) was REPORTED out of Committee with no recommendation and no fiscal note.

CS HB 199(FIN) am

"An Act making appropriations, including supplemental appropriations and capital appropriations; amending appropriations; and providing for an effective date."

CS HB 199(FIN)am was HEARD and HELD in Committee for further consideration.

#sb171

SENATE BILL NO. 171

"An Act relating to the permanent fund dividend of an otherwise qualified individual who dies during the qualifying year; and providing for an effective date."

[9:17:22 AM](#)

SENATOR KEVIN MEYER, SPONSOR, explained that the legislation provides for the issuance of a permanent fund dividend check to an eligible individual who dies during the qualifying year. The estate of a person who was alive for more than 180 days during the year would be allowed to apply for and receive the dividend, which current law does not allow. He spoke of the experience of constituents.

Co-Chair Stedman asked the effective date. Senator Meyer replied January 2010. Co-Chair Stedman clarified that persons who died after July 2009 would qualify. He referred to an experience with a death in his family.

Co-Chair Stedman pointed out that the fiscal note was reduced by \$572,000 interagency receipts.

Co-Chair Hoffman MOVED to report CS SB 171(FIN) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS SB 171(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached new fiscal note 1 by the Department of Revenue.

#sb177

SENATE BILL NO. 177

"An Act repealing the termination of licensing and regulation of sport fishing operators and sport fishing guides and licensing and registration of sport fishing vessels; and providing for an effective date."

9:20:24 AM

Co-Chair Stedman gave a brief history of the legislation and referred to the fiscal note by the Department of Fish and Game for \$462,000. He pointed out that the funding is already in the FY10 budget.

SENATOR KEVIN MEYER, SPONSOR, explained that the legislation would continue a good program that would otherwise sunset. He defined the legislation as a program that would maintain the professional standards of various sport fishing guides in Alaska. He explained that the CS previously adopted by the committee allows a guide who dies or is injured in the middle of the season to be replaced with another guide prior to receiving, with the understanding that the new guide would obtain the training as soon as the season is over.

Co-Chair Stedman referred to the bill as a waiver provision and noted that training classes are offered once each year.

Co-Chair Hoffman MOVED to report CS SB 177(FIN) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS SB 177(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached fiscal note 1 by the Department of Fish and Game.

#hcr2

CS FOR HOUSE CONCURRENT RESOLUTION NO. 2(RES) am

Requesting the governor to provide energy security for all Alaskans first by pursuing development of a natural

gas bullet pipeline from the North Slope to the Cook Inlet region; and requesting the governor to identify and negotiate where appropriate with one or more persons capable of producing natural gas from the Gubik area, and other areas on the North Slope if necessary, in sufficient quantities to support the energy needs of Alaskans and a bullet pipeline project.

[9:23:17 AM](#)

REPRESENTATIVE JAY RAMRAS, SPONSOR, provided an overview of the history of the legislation, which started as four separate resolutions in the House that broke the construction of an in-state gas bullet line into four incremental steps. The first step was to work on supply of the gas, whether from Gubik field or the North Slope as a contingent supply. The second step worked on the transportation facility. The third step addressed creating a volume of demand that would fill the pipe and bring the tariff down for all users. The fourth step addressed export demand and attempted to obtain sufficient components to fill a 500 million cubic feet per day (MMcf/d) pipeline, or approximately 180 billion cubic feet per year (Bcf/y).

Representative Ramras noted that the Railbelt region needed approximately 60 billion Bcf/y of gas for all residential and light commercial operations. A restart of the Agrium facility would require another 60 Bcf/y. Another 60 Bcf/y would be required for export.

Representative Ramras reported that the original four resolutions were consolidated into one as they moved through the House. He stated satisfaction with the legislation and the progress that Harry Noah [Project Manager, In-State Gasline] is making on behalf of the state. He noted that Mr. Noah is having constructive conversations with Agrium and that there has been discussion regarding synthetic fuels. He referred to a pending interim presentation from Doug Ward with Alaska Ship and Dry Dock in Ketchikan regarding building small ships that may be able to deliver fuel to small Alaskan coastal communities and thereby lower energy costs to rural Alaska.

[9:26:57 AM](#)

Representative Ramras referred to a visit to Dillingham during the previous summer's energy hearings. The energy committee took public testimony from 80 to 100 residents that the capacity to make ice would cut down on fuel use. He thought that natural gas delivered through small ships could play a significant role in increasing the gross domestic product of a community such as Dillingham. The shapers of HCR 2 felt that the governor should take a more aggressive role in shaping an in-state bullet line.

Representative Ramras thought that progress is best made incrementally.

[9:28:50 AM](#)

AT EASE

[9:29:31 AM](#)

RECONVENED

Representative Ramras opined that the administration could be doing more, although the drafters are satisfied with the appointment of Mr. Noah as an in-state gas coordinator. The legislation encourages the administration to be more proactive. He listed actions he thought would be prudent, including sending representatives to Ketchikan to talk with Mr. Ward, talking with the U.S. Department of Energy regarding an expansion of Alaska's export capacity, and reaching to the U.S. Department of Defense through the executive branch to discuss gas-to-liquids development in Southcentral Alaska. He thought that the state needed to develop energy in Alaska over the next fifty years. He did not think AGIA or Denali would offer a solution for many parts of the state. In the current uncertain economic climate, he thought the state should develop energy for in-state use.

[9:31:46 AM](#)

Co-Chair Hoffman referred to the last resolve on page 4 and asked the rationale for choosing the June 1, 2011 date. Representative Ramras answered that the date had been taken from Mr. Noah's timeline and he thought it was a solid one. Initially the date had been November 2010, but he thought the date should be tied to the next election cycle. He relayed that Mr. Noah believed a pipeline company would be selected and the project sanctioned by June 1.

Senator Olson queried the cost over time of building more than one pipeline. Representative Ramras referred to discussions with the Federal Energy Regulatory Commission (FERC). Many people have concerns that neither of the large diameter pipelines would be built. He thought Alaskans would not tolerate a re-gas certificate for liquid natural gas (LNG) for the Conoco facility. He emphasized that the option of importing LNG for interior Alaska was not acceptable to most Alaskans.

Representative Ramras opined that if Alaska builds a transportation facility, the market would take care of itself when it comes to a large diameter pipeline. He reiterated the need for steady incremental progress. He thought energy was a cornerstone for economic independence for Alaska. The state would not be dependent on credit markets and multi-national agreements.

[9:36:42 AM](#)

Senator Olson asked the approximate cost of the bullet line. Representative Ramras replied \$200,000 per diameter inch per mile; a 20-inch line would cost around \$4 million per mile, bringing the cost of an 800 mile pipeline to \$3.2 billion. Allowing a 20 percent cost overrun would bring the total to \$4 billion. He thought the money would be well spent.

Representative Ramras added that the gasline could be built with private sector capital and did not have to be built by the state.

Senator Thomas questioned the timeline. Representative Ramras replied that there could be two failed open seasons, one with TransCanada and a contingent open season with Denali, unless fiscal uncertainties were addressed. He thought an in-state gasline would provide opportunity for Nenana Basin to prove potential, as well as Gubik field and North Slope fields. He stated that the purpose of the resolution was to encourage the administration to put more resource into developing gas for in-state use.

[9:39:20 AM](#)

Senator Huggins commended Representative Ramras on his initiative. He reminded the committee about the extensive support from citizens regarding developing gas for in-state use. He stated support for Mr. Noah.

Senator Huggins queried potential for development in the Nenana Basin, which would provide a shorter pipeline to Fairbanks.

Representative Ramras gave an overview of three possible gas sources, which are being monitored by Mr. Noah:

- Gubik: the supply is promising. The field has about 600 Bcf. A gas pipeline with 180 Bcf/y for 20 years would need 3.6 trillion cubic feet (Tcf). The difficulty is that Anadarko made mistakes at the corporate level, which have compromised its ability to invest in Alaska.
- Nenana Basin: the commercial viability has yet to be proven. There are problems with the Army Corps of Engineers related to building a road. The basin is attractive but has a four-tiered process of determining success. The first would be power generation. The second is to have enough gas to build a very small diameter gasline to Fairbanks, or some modest LNG facility that would allow gas to be trucked there. The third would be sufficient gas supply to move it north as well as south to Southcentral. The fourth would be to have enough gas to do those things and also eventually nominate gas into the large diameter

pipeline. Proponents have testified that they anticipate finding between 20 and 50 Bcf this year and potentially as much as 200 Bcf in the basin. He stated that the basin has characteristics similar to Cook Inlet Basin, which is now producing only 10,000 barrels per day. Smaller pools of gas are expected in Nenana Basin.

- North Slope: 60 miles further north with the most expensive terrain to build a gas pipeline over. The line has the support of the mayor of the North Slope Borough. The gas would be "wet gas" and require gas treatment facilities.

[9:44:57 AM](#)

Senator Huggins asked about right-of-way status. Representative Ramras replied that there are two routes proposed:

- Parks Highway route: proposed by ENSTAR and the preferred route of Mr. Noah.
- Glennallen route: preferred route for Alaska Natural Gas Development Authority (ANGDA). He opined that ANGDA does not yet recognize Mr. Noah and needs to cooperate with him. The development authority claims that the seven miles through Denali National Park is unacceptable. Senators Murkowski and Begich have introduced legislation that would allow the pipeline to go through the same right-of-way corridor that the rail, road, and electric transmission lines pass through. The Glennallen route is longer and more expensive than the Parks Highway route.

[9:46:58 AM](#)

Co-Chair Hoffman pointed to page 2, line 3 and queried the placement of the "Be It Resolved" before the "Whereas." Representative Ramras answered that he was not sure why the bill was drafted in that format.

Co-Chair Stedman asked for the issue to be checked. Representative Ramras agreed to check.

Senator Thomas noted that the resolution attempts to focus the administration on the regulatory as well as economic issues that need to be addressed and evaluated. Representative Ramras replied that Mr. Noah would like to lessen risk by having ANGDA be the applicant to the Department of Natural Resources (DNR) for an in-state gas pipeline. He thought that once there is a permanent pipeline, a determination could be made regarding which entity would be best. He thought the entity would be ENSTAR.

Representative Ramras reminded the committee that ENSTAR has testified that they have \$1 billion in cash and \$3 billion worth of credit, and are ready to build the gas pipeline. He proposed that only government was standing in the way. The intent of HCR 2 is to tell government as strongly as possible to get out of the way and let the private sector build the line.

[9:50:42 AM](#)

Co-Chair Stedman opened public testimony.

PAUL FUHS, LEGISLATIVE DIRECTOR, ALASKA GASLINE PORT AUTHORITY (AGPA), thought the resolution put government in complete control instead of getting government out of the way. He noted similar issues in the past with the Alaska Gasline Inducement Act (AGIA) trying to control decisions instead of letting the market guide them. He stated that ENSTAR could build the pipeline. He did not think the question of cost risk had been addressed and opined that rushing into a project could cost Southcentral consumers. Once the certificate is granted, no other project will be allowed into the market until the debt is paid. There could be a risk that the state would then not be able to bring in cheaper gas if it became an option.

Mr. Fuhs referenced another in-state gas project that would bring gas into Valdez. He stated that the Valdez project was just as legitimate. He thought that enough volume was key to getting reasonably priced gas to Southcentral Alaska. If the state counts only on its own volume, the gas would be extremely expensive and people would not object to importing LNG at a third of the cost of an in-state gasline.

Mr. Fuhs stated that AGPA requested that the legislation be amended to support an export license for any in-state gasline instead of focusing on one entity. He emphasized the importance of supporting all options.

[9:53:56 AM](#)

Co-Chair Hoffman MOVED to report SCS CS HCR 2(RES) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SCS CS HCR 2(RES) was REPORTED out of Committee with no recommendation and no fiscal note.

#hb199
CS FOR HOUSE BILL NO. 199(FIN) am

"An Act making appropriations, including supplemental appropriations and capital appropriations; amending appropriations; and providing for an effective date."

[9:54:55 AM](#)

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, explained that HB 199 represented the non-transportation appropriations expected from the American Recovery and Reinvestment Act (ARRA), or economic stimulus bill.

Ms. Rehfeld acknowledged concerns about drawing on reserves at the end of the current and next fiscal years as a result of the current revenue shortfall. The administration has been discussing replacing general funds with ARRA funds. She referred to a recommendation. The largest piece not included in the governor's request for the stimulus funds was related to education funding. She referred to two specific funds through the state fiscal stabilization program:

- \$20.7 million discretionary allocation
- \$93 million for education purposes

Ms. Rehfeld explained that the House recommended that the first part be allocated to communities through an additional revenue-sharing payment. The administration hoped to use the funds for capital appropriations, particularly those in SB 75 related to the major maintenance list for schools, and relieve pressure on the FY10 budget.

[9:58:59 AM](#)

Ms. Rehfeld reminded the committee that ARRA allows states to utilize the funds to help offset increases in school funding. She requested using the funds in FY10 and FY11 for increases already approved in the school funding formula.

Ms. Rehfeld added that in the area of public safety, the administration had proposed utilizing justice assistance grants for capital projects rather than in the operating budget. She pointed to a Department of Public Safety appropriation in HB 199 for around \$5.8 million in the operating budget to hire law enforcement officials. The governor's recommendation is to utilize the funds for a one-time capital expenditure and continue to discuss using general funds for law and public safety.

Ms. Rehfeld noted that the final items had already been incorporated through the operating budgets, particularly in the areas of Medicaid, child support enforcement, and Child Support Block Grants.

Ms. Rehfeld referred to potential amendments.

[10:01:42 AM](#)

LARRY PERSILY, STAFF, REPRESENTATIVE MIKE HAWKER, HOUSE FINANCE COMMITTEE CO-CHAIR, provided an overview of the legislation as it passed from the House. House Bill 199 added in all the money available to the state. The largest pieces are \$170 million for education, mostly state fiscal stabilization funds. The \$93 million would flow through two school districts. The \$27 million discretionary fund would go to communities as additional revenue-sharing dollars. He also pointed to funding for Title I, special education funding at over \$73 million through the districts.

Co-Chair Stedman asked for the definition of Title I. Mr. Persily described Title I as a distribution formula in federal law dealing with economically disadvantaged students.

Mr. Persily added that approximately \$56 million in stimulus funds was added to HB 199 in the House for energy efficiency grants, state energy program, weatherization funds, electronic medical records funding, and about \$17 million for job training and employment services.

[10:04:15 AM](#)

Senator Thomas asked how much of the stimulus money still remained. Mr. Persily answered that HB 199 leaves no stimulus money unclaimed. The grants are an unknown quantity, and so are not included.

Co-Chair Stedman opened public testimony.

STEVEN CUNNINGHAM, CITY CLERK, CITY OF HOUSTON (testified via teleconference), spoke on behalf of the mayor of Houston in support of maintaining revenue sharing. He described Houston as an economically depressed area of Alaska with little infrastructure.

Co-Chair Stedman closed public testimony.

Co-Chair Hoffman commented that the \$20 million for revenue sharing was the only portion that would give local communities flexibility while stimulating the economy. He stated his strong support for revenue sharing.

CS HB 199(FIN)am was HEARD and HELD in Committee for further consideration.

[10:07:44 AM](#)

#

ADJOURNMENT

The meeting was adjourned at 10:07 AM.