

HOUSE FINANCE COMMITTEE
March 13, 2012
8:34 a.m.

[8:34:11 AM](#)

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 8:34 a.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Co-Chair
Representative Anna Fairclough, Vice-Chair
Representative Mia Costello
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Reggie Joule
Representative Mark Neuman
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Mia Costello, Sponsor; Representative Mike Chenault, Sponsor; Representative Mike Hawker, Co-Sponsor; Tom Wright, Staff, Representative Mike Chenault; Josh Walton, Staff, Representative Mia Costello; Joe Dubler, Vice President and Chief Financial Officer, Alaska Gasline Development Corporation and Director of Finance, Alaska Housing Finance Corporation, Department of Revenue; Rena Delbridge, Staff, Representative Mike Hawker; Jane Pearson, Staff, Representative Steve Johnson; Barbara Huff Tuckness, Director, Legislative and Governmental Affairs, Teamsters Local 959; Gene Therriault, Vice President, Resource Development, Golden Valley Electric Association.

PRESENT VIA TELECONFERENCE

Jerry Cleworth, Mayor, Fairbanks.

SUMMARY

HB 9 IN-STATE GASLINE DEVELOPMENT CORP

HB 9 was HEARD and HELD in Committee for further consideration.

HCR 24 STATE FOOD RESOURCE DEVELOPMENT GROUP

HCR 24 was SCHEDULED but not HEARD.

HB 170 MUNI TAX EXEMPTION FOR CERTAIN VOLUNTEERS

HB 170 was SCHEDULED but not HEARD.

HB 252 INCOME TAX EXEMPTION

CS HB 252(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new indeterminate fiscal note from the Department of Revenue.

HB 289 NATURAL GAS STORAGE TAX CREDIT/REGULATION

HB 289 was HEARD and HELD in Committee for further consideration.

#hb252

HOUSE BILL NO. 252

"An Act exempting certain small businesses from the corporate income tax; and providing for an effective date."

8:34:51 AM

REPRESENTATIVE MIA COSTELLO, SPONSOR, introduced the legislation.

Representative Gara expressed concern that small businesses could retain the exemption after making large amounts of money. He proposed that only the first \$10 million remain tax free on profits, and he queried the duration of the tax-free status.

Representative Costello replied that the tax would be applicable until a business reached \$50 million in gross aggregate assets.

Representative Gara wondered whether a tax break, but not a full tax break should be offered as business became more successful. He wondered about limiting the full tax break to the first \$10 million tax in profits.

JOSH WALTON, STAFF, REPRESENTATIVE MIA COSTELLO, responded that the \$50 million cap was written into the federal code. He noted that other requirements were written into the code as well, such as how the assets would be used in expansion into other businesses or areas not included in the federal definition. He stated that the change was not out of the question; however, the legislation was intended to make Alaska as competitive as possible for small businesses. He thought that the idea could be revisited in the future once the effect of the bill could be gauged.

Representative Wilson asked if the intention was to remain consistent with the federal government.

Representative Costello responded in the affirmative.

[8:39:22 AM](#)

Representative Doogan pointed to page 2, line 10. He requested an explanation for the words "authorized to do business in the state." He wondered how the language was distinct from "incorporated in the state."

Mr. Walton responded that there was not much of a distinction. He elaborated that originally the term "Alaska Corporation," had been defined explicitly because of the requirement that the businesses be headquartered in the state, but that The Department of Law had believed that that would be a violation on inter-state commerce. The Alaska Corporation was then defined as a corporation that was authorized to do business within the state.

Representative Doogan surmised that the language indicated Alaska Airlines or other companies that were not headquartered here, but that did business in the state

Mr. Walton replied that that was generally correct. He noted that Alaska Airlines was a transportation company and

would not qualify for the tax breaks discussed in the legislation.

Representative Neuman referred to the sponsor statement. He read that the types of businesses that would be affected were highly mobile and had many options regarding where they could locate their business. Such companies consequently tended to locate elsewhere, even when founded by Alaskan's. He asked if the bill contained sideboards that stipulated that if the companies were going to receive credits from the state that they must also be located in the state.

[8:42:16 AM](#)

Mr. Walton explained that the bill provided an exemption from state corporate income tax and only incurred corporate income tax liabilities for the activities carried out in the state. Out-of-state activities would be subject under the laws of the respective states.

Representative Neuman understood that in order to receive the credits the work had to be done in Alaska.

Mr. Walton responded in the affirmative.

Vice-chair Fairclough discussed the new fiscal note from the Department of Revenue.

Co-Chair Stoltze solicited amendments.

Representative Doogan wondered whether fiscal note number 1 was still applicable.

Co-Chair Stoltze replied that fiscal note 1 had been attached to a previous version of the bill.

Co-Chair Thomas MOVED to report CS HB 252(FIN) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS HB 252(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new indeterminate fiscal note from the Department of Revenue.

[8:45:26 AM](#)

AT EASE

8:47:19 AM

RECONVENED

#hb9

HOUSE BILL NO. 9

"An Act requiring the Joint In-State Gasline Development Team to report to the legislature recommended changes to state law that are required to enable or facilitate the design, financing, and construction of an in-state natural gas pipeline so that the in-state natural gas pipeline is operational before 2016; and providing for an effective date."

8:47:24 AM

REPRESENTATIVE MIKE CHENAULT, SPONSOR, introduced HB 9. He stated two years ago the legislature passed HB 369, which dealt with advancing an in-state gas pipeline project. Since that time, the Alaska Gasline Development Corporation (AGDC) had made progress developing a project along solid timelines and the bill had been crafted to maintain the momentum. He shared that the bill was more detailed than he had originally intended. He relayed that the original intention of the legislation had been to provide AGDC with the tools that would allow the project to be refined to the point of advancement. He qualified that advancement of the project would be dependent on a successful open season. The state had invested hundreds of millions of dollars in pursuit of a gas pipeline, but it had been perpetually held back due to a variety of reasons. The sponsors had attempted to answer a number of concerns from other members. He did not want the project to be in competition with another gasline project. He admitted that he wasn't sure of the logistics of the project. He believed the issue was about policy and trying to get gas to Alaskans.

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Representative Chenault continued to discuss the legislation. He understood that more gas could be sent through a larger, rather than a smaller line. He said that the state's hands were tied by the Alaska Gasline Inducement Act (AGIA). He stated that the bill was an

attempt to address concerns to move the pipeline project forward to an open season.

REPRESENTATIVE MIKE HAWKER, CO-SPONSOR, endorsed the background and description of the bill sponsor. He explained that HB 369, which had been passed two years earlier, had been the inspiration for the legislation. He shared that HB 369 had directed certain state employees at Alaska Housing Finance Corporation (AHFC) to move forward and begin developing a project plan for delivering gas to Alaskans. He cited the specific objectives in the plan:

(c) The project plan must include specific plans to coordinate and facilitate construction, ownership, operation, and management of a natural gas pipeline serving Fairbanks, the south-central region of the state, and other communities whenever practicable, connecting with or enhancing the existing gas pipeline system, and reaching to tidewater in the south-central region of the state.

Representative Hawker shared that a project plan had been delivered in accordance with HB 369 that embodied the mission. He said that HB 9 would provide the statutory language to implement the vision that had been passed in HB 369. The technical language in HB 9 would take the project to the next step of going to the market and finding out what the market would bear in getting Alaska's gas to Alaska's people. He reiterated that the open season would inform the state as to how the project should proceed.

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Representative Hawker continued to address HB 9. He stated that sections of the bill defined, refined, and clarified the duties of AGDC. He referred to the sections as "the Empowerments." He relayed that other parts of the bill made technical amendments to the Alaska Natural Gasline Development Authority (ANGDA) statutes by bringing them into conformity as a sister company with AGDC for the purpose of delivering gas to Alaskans. He stated that sections in the bill allowed the pipeline to operate as a contract carrier in lieu of the existing common carrier statutes. He furthered that sections of the bill protected projects moving forward from unnecessary judicial interference. He said that some sections related to empowering AGDC to enter into confidentiality agreements

and manage confidential information that was "mission critical" to moving a project forward. Sections related to the Regulatory Commission of Alaska (Regulatory Commission of Alaska) exempted the project from provisions that were not appropriate, and worked to define a framework of appropriate regulations. Another section exempted the project from property taxes during the construction period. He revisited the "Empowerments." He shared that the empowerments were necessary to enable the project to go forward according to the original intent. He stated that the project was "stand alone," and that AGDC should evolve into partnership or ownership with other pipeline projects or developers. He stressed that every day of hesitation represented a day that the market was passing the state by.

Co-Chair Stoltze solicited further expert testimony.

Representative Mike Chenault noted that staff was available to answer questions.

[9:00:23 AM](#)

TOM WRIGHT, STAFF, REPRESENTATIVE MIKE CHENAULT, discussed the sectional analysis (copy on file). He stated that Section 1 related to the duties and abilities of ADGC. He highlighted the duties and abilities:

Section 1 relates to Alaska Gasline Development Corporation's (AGDC) duties and abilities as a subsidiary under the Alaska Housing Finance Authority (AHFC).

AGDC shall:

- Advance an instate gas pipeline as described in the July 2011 project plan, with modifications as necessary.
- Once construction on that line starts, analyze additional pipelines to connect other regions of the state, broadening the reach of gas beyond a main line.
- Manage and invest a newly created pipeline fund to yield competitive market rates.
- Following an open season, once precedent agreements are signed, make public for each shipper the name, capacity contracted for, and length of contract.

Mr. Wright continued:

AGDC may:

- Decide how a pipeline will be owned and operated, including joint ownership/operatorship.
- Use eminent domain to acquire land required for a pipeline.
- Acquire property and interests in pipelines as needed.
- Transfer or dispose of a pipeline project that is an AGDC asset.
- Issue revenue bonds limited to AGDC's backing.

Mr. Wright read from the sectional analysis for CSHB 9 (RES):

Section 2 exempts ANGDA from the state procurement code when contracting for professional services; conforming to Section 19 (AGDC is already exempt).

Adds a new paragraph to AS 36.30.850, Public Contracts, State Procurement Code, Application of this chapter

Section 3 provides AGDC access to information of state agencies related to a gas pipeline. As the Joint In-State Gasline Development Team (JIGDT) created in HB 369 in 2010 is repealed in section 28, HB 9, this section also changes "JIGDT" to "AGDC." (Section 28 repeals JIGDT.)

Amends AS 38.34.050, Public Land, Instate Natural Gas Pipeline, Cooperation and Access to information

Section 4 directs state agencies to cooperate with and give priority AGDC requests, and calls on AGDC to avoid duplicating other state-supported work. As JIGDT is repealed in section 28, HB 9, this section also changes "JIGDT" to "AGDC."

Amends AS 38.34.050, Public Land, Instate Natural Gas Pipeline, Cooperation and Access to information

Section 5 requires DNR to grant a state right-of-way lease to AGDC at no cost or rental fee, and exempts

those leases from the common carriage covenants in the state Right of Way Leasing Act. Exemption from the covenants has the effect of allowing an AGDC line to operate as a contract carrier.

Amends AS 38.34.050, Public Land, Instate Natural Gas Pipeline, Cooperation and Access to information

Section 6 allows AGDC to enter into confidentiality agreements, including with state agencies, and deems confidential information related to field studies and technical data. Calls on municipalities and agencies to provide non-hydrocarbon natural resources, such as water, sand and gravel, at usual and customary rates. Requires AGDC to bear those costs but does not allow those costs in a rate base.

Adds new subsections to AS 38.34.050, Public Land, Instate Natural Gas Pipeline, Cooperation and Access to information

Section 7 revises definitions of "AGDC," "in-state natural gas pipeline," and "natural gas pipeline."

Repeals and reenacts 38.34.099, Public Land, Instate Natural Gas Pipeline, Definitions

[9:05:11 AM](#)

Section 8 conforms to Section 5, right-of-way leasing.

Amends AS 38.35.100, Public Land, Right-of-Way Leasing Act, Decision on Application

Section 9 Conforms to Section 5, Right-of Way Leasing

Amends AS 38.35.100, Public Land, Right-of-Way Leasing Act, Covenants required to be included in lease

Section 10 Conforms to Section 5, Right-of Way Leasing

Amends AS 38.35.100, Public Land, Right-of-Way Leasing Act, Covenants required to be included in lease

Section 11 Conforms to Section 5, Right-of Way Leasing
Adds new subsection to AS 38.35.120, Public Land, Right-of-Way Leasing Act, Payment of rental and costs

Section 12 limits judicial review of state lease, permit or other authorization decisions to superior court and prohibits the court from granting injunctive relief. Claims must be brought within 60 days of an action for which relief is sought.

Adds new subsections to AS 38.35.200, Public Land, Right-of-Way Leasing Act, Judicial review of decisions of commissioners on application

Section 13 exempts information covered by an AGDC confidentiality agreement from the state Public Records Act. (This section exempts from public records disclosure the information allowed under Section 6 to be kept confidential)

Amends AS 40.25.120 Public Records and Recorders, Public Record Disclosures, Public Records; exemptions; certified copies

Section 14 amends ANGDA's purpose, enabling ANGDA to act as a gas marketer instead of transporter, and eliminating proscriptive language regarding gas supply and gas market locations.

Amends AS 41.41.010, Public Resources, Alaska Natural Gas Development Authority, Establishment of the authority

Section 15 broadens ANGDA's purpose as a natural gas marketer.

Amends AS 41.41.010, Public Resources, Alaska Natural Gas Development Authority, Establishment of the authority

Mr. Wright stated that ANGDA would remain intact to follow the voter's initiative in 2002, but instead of having competing purposes, ANGDA would continue as a marketer and allow AGDC to focus on the building, operating and ownership of a gasline.

Section 16 adds to ANGDA's statutory abilities by allowing ANGDA with the DNR commissioner to pledge state royalty gas for contracts entered into by ANGDA.

Adds new subsection to AS 41.41.010, Public Resources, Alaska Natural Gas Development Authority, Establishment of the authority

Section 17 states that ANGDA, as an AHFC subsidiary, shall be governed by the AHFC board of directors.

Repeals and reenacts AS 41.41.020, Public Resources, Alaska Natural Gas Development Authority, Authority governing body

Section 18 amends ANGDA statutes related to board compensation, to conform to Section 17.

Amends AS 41.41.060, Public Resources, Alaska natural Gas Development Authority, Compensation of board members; per diem and travel expenses

Section 19 amends ANGDA statutes to include legal counsel in the services ANGDA may contract for, and exempts procurement of contracted services from the state procurement code.

Amends AS 41.41.070, Public Resources, Alaska Natural Gas Development Authority, Authority staff

Section 20 amends ANGDA board member and employee conflict of interest disclosures, removing involvement with a "project" from the circumstances requiring disclosure. {Conforms to Section 14 redefining ANGDA's role}

Amends AS 41.41.150, Public Resources, Alaska Natural Gas Development Authority, Conflicts of interest

Mr. Wright interjected that many of the changes in the ANGDA statutes were conforming to ANGDA's position as a marketer.

Section 21 amends ANGDA's statutory authority to include as confidential and exempt from the public records act information within a confidentiality agreement between ANGDA and AGDC.

Section 22 amends ANGDA's statutory authority, removing the authority to exercise eminent domain. (Conforms to Section 14 redefining ANGDA's role)

Amends AS 41.41.200, Public Resources, Alaska Natural Gas Development Authority, Powers of the authority

Section 23 conforms to Section 17 by defining "board" in ANGDA's statutes as the AHFC board.

Amends AS 41.41.990, Public Resources, Alaska Natural Gasline Development Authority, Definitions

Section 24 requires public utilities to submit contracts with AGDC to the Regulatory Commission of Alaska; gives the Regulatory Commission of Alaska 180 days to approve or disapprove the contracts. Requires AGDC or an entity controlled by AGDC to submit non-utility contracts, under seal, to the Regulatory Commission of Alaska; provides the Regulatory Commission of Alaska 30 days to approve non-utility contracts if the tariffs are no higher than the weighted average of tariffs in public utility contracts.

Adds new section to AS 42.05, Public Utilities and Carriers and Energy Programs, Alaska Public Utilities Regulatory Act

Mr. Wright stated that Section 24 was the result of an amendment from House Resources Committee to assure that the state's interests were protected.

Section 25 exempts an AGDC-controlled project from the Regulatory Commission of Alaska under 42.05, Public Utilities Act.

Adds new subsection to AS 42.05.711, Public Utilities and Carriers and Energy Programs, Alaska Public Utilities Regulatory Act, Exemptions

Section 26 exempts a pipeline in which AGDC has an interest from Regulatory Commission of Alaska regulation under 42.06, the Pipeline Act.

Adds new section to AS 42.06, Public Utilities and Carriers and Energy Programs, Pipeline Act, Article 7, General Provisions

Section 27 exempts an AGDC project from state and local property taxes during construction.

Adds new subsection to AS 43.56.020, Revenue and Taxation, Oil and Gas Exploration, Production and Pipeline Transportation Property Tax, Exemptions

Section 28 repeals seven statutes.

Repeals AS 38.34.030, Public Land, In-State Natural Gas Pipeline, Joint In-State Gasline Development Team; 38.34.040, Duties of the Development Team; and 38.34.060, Conflicts of interest. Repeals AS 41.41.030, Public Resources, Alaska Natural Gas Development Authority, Term of office; 41.41.040, Removal and vacancies; 41.41.050, Quorum and voting; and 41.41.080, Legal counsel.

Section 29 repeals Section 1 of the 2002 Ballot Measure No.3, the findings of which are no longer applicable or necessary with ANGDA's revised authority.

Section 30 is transition language expressing the legislative intent that existing tight-of-way leases between AGDC and DNR are to be amended to reflect the exemption from common carriage covenants contained in Section 5 of HB 9. (The Alaska Constitution bars the Legislature from passing laws that apply retroactively to contracts in place)

Section 31 is reviser's instructions.

Section 32 sets and immediate effective date.

[9:10:27 AM](#)

JOE DUBLER, VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, ALASKA GASLINE DEVELOPMENT CORPORATION AND DIRECTOR OF FINANCE, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, testified that he was available for questions.

Vice-chair Fairclough asked if a reclamation clause for a gas pipeline had been written in to the bill.

RENA DELBRIDGE, STAFF, REPRESENTATIVE MIKE HAWKER, responded that there was no reclamation clause in the bill. She stated that the state pipeline coordinator's office currently had standards in place regarding abandonment should a line become no longer operational. She explained that gas pipelines differed from oil pipelines in that gaslines were generally beneath the ground. She said that rather than being dug up, gaslines tended to get flushed clean and then sealed off.

Vice-chair Fairclough stressed the importance that reclamation language should exist for anything above ground. She directed attention to Section 23. She wondered how one governing board could be in multiple layers; would the courts view the board as one corporation with full liability.

Mr. Wright replied that Page 4, subsection (d), spoke to the issue of debt obligation:

(d) No debt, obligation, or liability of the Alaska Gasline Development Corporation shall become a debt, obligation, or liability of the state or any part or subdivision of the state or of the corporation or a subsidiary corporation of the corporation other than the Alaska Gasline Development Corporation, except as provided in this subsection.

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Vice-chair Fairclough thought that the answer could come best from legislative legal. She asked if one project management board residing under multiple subsidiary corporations would be a liability for the state of Alaska.

Mr. Wright responded that both ANGDA and AGDC were subsidiaries of AHFC, which was why there was only one board of directors.

Mr. Dubler elaborated that the courts looked at the common control of entities. He added that similar relationships existed in other companies. For example, oil companies could have separate shipping and marketing companies that had similar control over certain projects. The department believed that there was enough segregation that the issue would not be a problem for the corporation.

Vice-chair Fairclough requested a legal memo that clarified the liability issue.

Mr. Dubler stated that general legal counsel could be present at the next hearing.

Representative Doogan did not believe that there was anything to be done about the obligations of the state with regard to the corporation. He expressed concern that if things went poorly for the corporation the obligation would fall directly to the state. He furthered that the section that exempted the Public Records and Procurement Acts from legislative oversight was troublesome.

[9:19:02 AM](#)

Ms. Delbridge replied that assurances of the state's legal and financial protection could be supplied at a later date. She explained that the Public Records Act had a multi-page exemption list; or information that, in other context in the state, was kept confidential. She stated that when AGDC was allowed to enter into confidential agreements it was agreed that the information was not subject to release under the Public Records Act. She said that AGDC was currently unable to fully participate in discussions with other commercial parties; for example, Trans-Canada, who was working on the Alaska Pipeline Project. She relayed that corporate attorneys from Trans-Canada were reluctant to allow their company to engage in discussions with AGDC because there was no way of knowing that shared information would be held completely confidential. She said that the kind of information she was referring to related to another section of the bill that instructed AGDC not to duplicate work already being performed by other state agencies, or with support from the state buy others. For example, the state was reimbursing a portion of Trans-Canada's work on the Alaska Pipeline Project and AGDC should be able to share in the data collected.

Representative Doogan understood that the exemption was a complete exemption.

Ms. Delbridge referred the committee to Section 6. She stated that the section allowed the AGDC to hold certain information confidential, and allowed for the AGDC to enter into confidential agreements with other private interests or state agencies. She said that this would allow for the

flow of information that was already proprietary or commercially privileged. She highlighted Section 13, which exempted from disclosure under the Public Records Act the information that was covered by a confidentiality agreement between AGDC and the provider or recipient of the information.

Representative Doogan understood that the exemption covered information that would expectedly be confidential in a business environment.

Ms. Delbridge replied in the affirmative.

Mr. Dubler added that the intent of the exclusion from the Public Records Act was to allow the corporation to enter into discussions with other companies that wanted to ship gas on the line. He said that companies would never share their information if they thought it would be subject to request under the Freedom of Information Act. He stressed that corporations did not like to share information unless absolutely necessary. He said that the language in the bill allowed for the confidentiality agreement, which would allow for real project progression.

[9:25:40 AM](#)

Representative Gara expressed concern that exploration in Cook Inlet would be deterred if prospectors realized that the state planned to subsidize a gasline from the North Slope.

Mr. Dubler replied that the state would not be subsidizing the line, the state would only be providing the seed money. He said that the line would eventually pay for itself and there would be no ongoing state subsidy. He shared that the current price of gas out of Cook Inlet was below the projected delivered price for North Slope gas to the Cook Inlet and Fairbanks areas. He believed that future utilities contracts would raise the value of the gas found on the North Slope.

Representative Gara remained concerned about the possible detrimental effect on Cook Inlet exploration. He feared that building the pipeline could result in the most expensive gas ever experienced in the state. He felt that the idea of reducing the price by getting an anchor tenant that would take on an extra quarter billion cubic feet of

gas was a flawed plan. He doubted that a company would approach the state saying, "That is the most expensive gas in the country. Let me double the size of the pipeline." He said that the pipeline had to have a 20 to 30 year commitment from consumers to buy the gas from the line, before it could be built. He said that if consumers were bound by the AGDC July 2010 estimate of \$17 gas, and then they would not be able to take advantage of a larger line that produced cheaper gas sometime in the future.

Mr. Dubler shared that the July 2010 report could not be an AGDC report, as ADGC was created in 2011. In 2011 the corporation put out a report showing \$9.65 gas to the Anchorage area. The project would not be complete until 2019; the governor had vocalized there would be an alignment on any other projects going forward. He said that if a larger gasline, planned for south-central was to go ahead, the project under discussion in the bill would be dropped.

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Mr. Wright queried what would quell public outcry if no gas was found in Cook Inlet, and the state remained hesitant on building a large line.

Representative Gara surmised that if it turned out that there were not large stores of gas in Cook Inlet the state would have to move more quickly on the matter. He pointed attention to the ADGC study estimate of a 250 thousand cubic foot (Mcf) line at \$17. He was concerned that if the state was trying to tide itself over while waiting for a large gasline, he thought that the way to do it would be to spend less money to subsidize the Fairbanks area. He shared that Fairbanks had proposed trucking gas to the area, and had estimated that gas could be delivered at as low as \$11 Mcf. He thought exploring the cheapest options to get gas to people, while planning for an eventual large line, should be considered in the bill.

Mr. Dubler replied that it would be a policy call for the legislature and the governor. He stated that a 250 Mcf pipeline would never be built because it was not economical. He spoke to the report cited by Representative Gara. He said it was projected in the report that for \$14 - \$16, liquefied natural gas (LNG) could be imported from Sakhalin, Russia. He stated that in May of 2011 the

corporation had not received interest at full capacity for a 500 Mcf line for a commercial and an anchor tenant. He said that it was expected that the pipeline would be filled at 500 Mcf, which was why it was believed that the tariff of \$9.65 was attainable.

Representative Gara countered that the cost of gas for a 250 Mcf line was higher than a 500 Mcf line. He said currently the state used less than 250 Mcf, in terms of natural gas. He queried why an anchor tenant was going to more than double the use of gas in Alaska, when the gas was going to be more expensive than anywhere else in the country. He stressed that no company was going to relocate to Alaska for more expensive gas.

Mr. Dubler replied that projections anticipated that in south-central, Fairbanks, and the bases in Fairbanks, 240 Mcf would be used per day. He said that the expression of interest that the corporation had received, although not as binding as an open season, was from a viable entity. The entity had offered a commitment to ship on the line 250 to 260 Mcf, and that would fill the line at 500 Mcf per day. He furthered that the demand was anticipated, but if an anchor tenant did not appear upon a binding open season, the project would be abandoned and LNG would be imported.

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Ms. Delbridge interjected that it was the sponsor's intent, and AGDC's original mission, to examine and compare various line sizes in order to come up with a gasline with a tariff that works for Alaska. She acknowledged that there was a question of how much demand from the line the Railbelt could currently use, the lack of available gas in Cook Inlet already had prohibited the expansion of natural gas distribution utilities in south-central. She stated that one of the reasons that the state did not have continuing, large-scale LNG exports out of Nikiski was due to the inability to secure long-term gas contracts. She relayed that bringing down the additional gas would help with the security of supply that would enable greater options and greater expansion. She predicted that home-grown Alaskan businesses might create propane or compressed natural gas distribution projects. She added that the 20 to 30 year contracts could be as short as 10 to 15 years, and could vary in time length between different utilities and end-users, this would allow for the accommodation of changing

conditions. She suggested that having a secure supply of gas in the south-central region would facilitate a greater desire to explore in Cook Inlet because there would be an outlet for the gas through existing LNG exports. She stated that depending on what happened with AGIA, HB 9 allowed AGDC to shift gears to become the builder, designer, and operator of a spur-line off of a large diameter pipeline.

[9:38:37 AM](#)

Representative Wilson reminded the committee that gas was needed in Fairbanks sooner than later. She asked about the definition of "serving Fairbanks" as it was written in HB 369. She queried the responsibilities of her district under the legislation.

Ms. Delbridge answered that the project included a 35 to 40 mile line to connect the Dunbar Region into Fairbanks/North Pole proper. She said that the precise locations and buyers would be identified the point of an open season. She explained that a straddle plant would be necessary at any point in the line where gas was extracted. She detailed that a straddle plant was a facility that would extract the liquids from the gas, let the dry gas flow through, and then reintroduce the wet gas into the line. She said that the tariffs paid on the line would depend on whether it carried wet or dry gas.

Representative Wilson stressed that her community wanted a pipeline but had reservations about who would bear the cost.

Co-Chair Stoltze noted that a gasline should not be built without firm commitments and contracts in place.

[9:41:44 AM](#)

Representative Neuman referenced the Rocky Mountain Express, which was the last built major pipeline. He said that the 42 inch line that traveled through 8 states was 1679 miles long and had cost \$6.8 billion. He thought that \$7.4 billion for a 24 inch line that was 700 miles long did not make sense. He wondered what the differences were in the two projects that resulted in the extreme cost differences.

Mr. Dubler replied that there were more difficulties attached to building in an arctic environment, rather than the Continental United States. He highlighted several issues including permafrost and bogs. He felt that it was comforting that costs had been overestimated, rather than the alternative. He stated that an analysis conducted for the legislature that had found that the cost estimates were conservative. He said that the \$7.52 billion figure was intentionally conservative.

Representative Neuman thought that the project would be "fairly simple to do," regardless of the arctic conditions. He said that the construction would occur on what was essentially a road already. He appreciated that conservative estimate, but requested further analysis that would reflect actual cost.

Mr. Dubler replied that the analysis was currently underway. He said that the estimates from July 2011 were at plus or minus 30 percent confidence level. He said that the number would be somewhere between \$5 billion and \$10 billion. He added that the tariff would be based on the actual cost of the project.

[9:46:12 AM](#)

Representative Neuman discussed deliverables. He wondered what the economic impact on Alaska would be if a gas pipeline were to drive more energy for gold development and other electrical generation. He probed what the impact would be for Alaska economically. He thought that there would be huge economic impact involved, in addition to deliverables, which could be calculated.

Ms. Delbridge believed that the legislature's approval of HB 369 had been in recognition of the work that had been done while examining the question of economic impact. She said that identifying an instate gasline would bring down energy costs for consumers and help large mine contracts and industrial developments to pencil out. She stressed that the economic benefits were broad, which was the basis for encouraging AGDC to move forward with the line.

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Mr. Dubler added that it was estimated that 8000 jobs would be created in the 2 to 3 year construction period. He pointed to page 3, line 8 that directed AGDC to look for

other areas in the state that could utilize the gas from the pipeline. He added that the pipeline could help in encouraging future mining projects in the state.

Representative Neuman asked about enabling language. He expressed frustration that information concerning the AGDC entering into negotiations with pipeline options had been slow to reach the legislature. He clarified that the state was putting up a considerable amount of money, yet received very little information back. He recognized that there were confidentiality issues surrounding some information.

Ms. Delbridge replied that the enabling language could be found in Section 1 of the bill; the "shall and "may" bullet points of the AGDC. She said that AGDC shall continue on the project presented in the project plan with "modifications as necessary." She stated that the "modifications as necessary" was important because the project could be altered the results of an open season. She relayed that the project plan did not specify where on the North Slope gas would be coming from; that could shift depending on who had the gas to sell. She furthered that while AGDC was required to proceed with the project plan, with modifications, it was also empowered to broadly examine gasline opportunities. She qualified that AGDC would be expected to pursue the project plan until a better plan presented itself.

[9:52:43 AM](#)

Representative Guttenberg wondered what unique set of skills AHFC had that justified the project being housed under the corporation's umbrella.

Ms. Delbridge replied that AHFC had an excellent record in managing and investing Alaska's assets in a highly responsible way. She relayed that in HB 369 AHFC had been tasked as the lead agency on the project. She shared that the corporation had brought together a solid team to advance the state's interests. She furthered that through AGDC, AHFC had employed experts with decades of pipeline experience within the state. She stated that the 3 commissioners currently sitting on the AHFC board would protect the state's interests moving forward; additionally, there was a balance throughout the entire board of representation from various regions of the state. She said

that AGDC retained the ability to select the pipeline operator and builder.

Mr. Dubler clarified that the AHFC board was composed of 7 people; the three commissioners were from the Department of Revenue, Department of Health and Social Services (DHSS), and the Department of Commerce, Community, and Economic Development (DCCED). He acknowledged that DHSS may not apply to the pipeline, but that certainly DOR and DCCED would be involved. He added that the 4 public members of the board were required to demonstrate a specialty in energy, finance, or senior housing.

Co-Chair Stoltze interjected that the four public members had to be confirmed by the legislature.

Mr. Dubler responded that including the separate confirmation required for commissioners upon taking office, all 7 members were confirmed by the legislature.

Representative Guttenberg understood that the AHFC had done a good job in the realm of housing; however, the project under discussion was a very different venture. He asked about the nature of the contract carrier versus the common carrier. He queried the restrictions on contract carriers in future development.

[9:57:44 AM](#)

Ms. Delbridge believed that a natural gas pipeline in Alaska would need to operate as a contract carrier, much like the other gaslines in the Lower 48. She stated that with an oil pipeline there was a greater ability to ship the capacity allocated to various customers in a day to make room for other involved parties at given points in time. She countered that a gas pipeline would need firmer contracts; if a shift were suddenly required in order to make room for another buyer, power could be inadvertently cut from another electric utilities gas. She addressed the benefits of common carriage. She shared that common carriers benefited exploration, but that being a contract line would not limit Alaska's potential for expansion. She explained that the terms of expansion would be written into the contracts AGDC forged with customers. She said if newcomers arrived with a volume that supported the investment required to install additional compression, or to loop the pipeline, terms would be worked out

contractually with AGDC. She declared that the fuller the pipeline, the better off those using the pipeline. She said if there was room, it was likely that the pipeline operating company would have great interest in allowing entry to newcomers. She noted the caveat was that the instate pipeline was limited in size because of the AGIA requirement that the state refrain from supporting a competing line. She said that as long as the AGIA terms were in place the expansion was not an immediate issue. She relayed that if the provision capping the available flow and space on the pipeline were removed then the possibility of adding additional compression and increasing side was more likely. She added that there was the possibility that if additional transport capacity could be added below the 68th parallel without violating the competing line terms of AGIA.

Representative Guttenberg noted that the project had been locked in to advance as described in the July 2011 report. He wondered how much leeway would be necessary in order to respond to changing economics.

Ms. Delbridge believed there was a considerable amount of leeway given in the language of the bill. She stated that allowing for modifications was intended to give AGDC the flexibility during an open season to see: who had the gas to ship, who wanted to buy the gas, and to connect those sellers and buyers with transportation. She relayed that the concept was that the project produce a main, mid-sized natural gas transportation pipeline.

[10:03:08 AM](#)

Representative Guttenberg stressed that given all the modification possibilities, it would impossible for the state to know the details of what it could expect for the investment.

Ms. Delbridge countered that what the bill did was to allow AGDC to take the project to an open season. She furthered that at that point the project would be defined absolutely, based on who had gas, and who needed gas. She stated that the legislature would receive routine updates from AGDC, and would retain "the power of the purse strings." She clarified that the bill did not implicitly tell AGDC to build the pipeline, but to solidify a project plan after the open season. She said that the expectation was that

AGDC would come back before the legislature for additional operating money, and for the eventual equity contribution of the state, should the state choose to issue revenue bonds to fund a large pipeline. She stressed that that was a decision that was expected several years into the future.

Mr. Dubler added that the bill contained sideboards intended to inform any modification of the plan. He relayed that the sideboard instructed that the pipeline be constructed in a safe and economical manner.

Ms. Delbridge reiterated that the AGDC would remain bound to the essential mission detailed in HB 369, which was to build a gasline that connected people in Alaska with gas, and at the lowest possible cost.

Representative Edgmon believed the legislation was important despite the ever-changing economics related to providing affordable energy. He stated that the anchor tenant issue could prove problematic for rural Alaska, and hoped that the issue could be addressed more in-depth.

[10:07:16 AM](#)

Representative Doogan asked why the agency was exempt from the procurement code.

Mr. Dubler replied that there had only been one year to prepare the report and the department had not wanted to bind the entity with public notice requirements. He said that being exempt from the procurement code placed a bigger burden on the agency because there were no rules to operate under, and instead the agency had adopted rules similar to the state procurement rules. He explained that day-to-day procurement operations were initiated under AHFC procurement rule, which were based on the state's rules. He shared that an internal audit had recently been performed and could be made available to the committee.

Representative Doogan maintained that the procurement code exemption was a discomfoting aspect of the legislation.

Representative Doogan asked about an anchor tenant at 250 Mcf that Mr. Dubler had mentioned.

Mr. Dubler replied that there had been a preliminary showing of interest; knowing that there was 240 million

cubic feet of usage currently in the south-central area. He said that it made sense that if there was half a billion cubic feet of interest, that there was another entity in place to bid for the remainder.

Representative Doogan asked who the bidding company was.

Mr. Dubler replied that the information was confidential.

Representative Doogan cited Page 12, line 28 related to judicial review. He believed that the language bound the hands of the court in relation to how it would normally handle complaints.

Mr. Wright explained that the language dealt with right-of-ways. He shared that similar legislation had been found in the Federal Trans-Alaska Pipeline System (TAPS) act, as well as in state law. He said that the language did prohibit the court from issuing temporary injunctive relief, but relief could be issued through a final order. He stated that the language had been modeled after the TAPS legislation in order to make sure that special interest groups would be deterred from filing complaints that jeopardized progress on the project.

[10:13:35 AM](#)

Representative Doogan recognized the difficulty in making accurate cost estimates for the project. He expressed concern that the project was going to cost a lot more than estimated. He hoped that the possibility that the project could cost more than estimated was being taken into consideration.

Mr. Wright referred to small changes that had been recommended by various agencies. He shared that the sponsors would be working with co-chair staff to address any alterations of the bill.

HB 9 was HEARD and HELD in committee for further consideration.

[10:16:34 AM](#)

AT EASE

[10:22:21 AM](#)

RECONVENED

#hb289

HOUSE BILL NO. 289

"An Act relating to a gas storage facility; relating to the tax credit for a gas storage facility; relating to the powers and duties of the Alaska Oil and Gas Conservation Commission; relating to the regulation of natural gas storage as a utility; relating to the powers and duties of the director of the division of lands and to lease fees for a gas storage facility on state land; and providing for an effective date."

Vice-chair Fairclough MOVED to ADOPT proposed committee substitute for HB 289, Work Draft 27-LS1216\X (Bullock, 3/12/12).

Co-Chair Stoltze OBJECTED for the purpose of discussion.

There being NO further OBJECTION, Work Draft 27-LS1216\X was ADOPTED.

JANE PEARSON, STAFF, REPRESENTATIVE STEVE JOHNSON, referred to the sponsor statement (copy on file):

The cost of energy is crippling a good portion of Interior Alaska's economy. The ever increasing expense of heating homes and operating businesses during the long, cold, dark winter hurts the ability of Interior Alaskans to put food on the table today and plan for the future. The Fairbanks community spends over \$600 million per year on space heating, pays the highest natural gas process in the country and does not receive the state energy incentives of subsidies available to residents and communities in other regions of our state.

Ms. Pearson opined that she would spend all of her disposable cash for the year on energy bills. She suspected that by end of the year she will have spent \$8000 on home energy bills. She stated that an infusion of gas to Fairbanks would reduce energy costs to end users and restore Fairbank's ability to grow its economic base. She said that HB 289 would incent the private sector's delivery of lower cost natural gas to Interior Alaska by extending tax credits for liquid natural gas storage facilities that were necessary for natural gas projects. She stated that a new credit for construction of an above ground liquefied

gas storage tanks, with a volume of 25,000 gallons, would make the program flexible enough to fit the varying needs of gas delivery throughout the state. She furthered that the legislation would allow eligible, above ground, liquefied gas natural storage facilities cited on state lands to request an exemption from rental payments. She said that the exemption could extend for up to ten years following the commencement of commercial operations. She stated that the bill defined how the credits would be distributed, both as tax credits and payments to non-taxable entities. She described the safeguards in the bill; the liquefied natural gas storage facility must be regulated by the Regulatory Commission of Alaska (RCA), and the incentives must be passed onto customers. She explained that the bill set forth how a person who received a credit or payment should repay the credit or payments if the facility ceased commercial operation within the 9 calendar years immediately following the calendar year in which the facility commenced commercial operations. She noted that the bill defined liquefied natural gas storage facilities under the RCA.

[10:26:04 AM](#)

Ms. Pearson walked the committee through the sectional analysis (copy on file):

Section 1. AS 38.05.096 Creates a new section under AS 38.05 that allows eligible above ground liquefied natural gas tank storage facilities, sited on state lands, to request an exemption from rental payments. The exemption could extend for up to ten years following the commencement of commercial operations as long as the facility continues to operate. Information regarding the rental exemption is deemed to be "public" and is available to the RCA upon request. A person receiving a rental exemption must adjust the storage charge downward to reflect this state benefit and pass it through to the storage customers.

Section 2. AS 42.05.381(k) Amends the statute to state that payments or tax credits granted under this bill shall be reflected in the utility's rates.

Section 3. AS 42.05.990(5) Amends the definitions "public utility" or "utility" to include furnishing liquefied natural gas to the public.

Section 4. AS 42.05.990(11)-(13) Adds the definitions of "liquefied natural gas storage facility" and

"reservoir" and "service of liquefied natural gas storage" to apply to liquefied natural gas.

Section 5. Adds a new section to AS 43.20

AS 43.20.047. Creates a new credit for a liquefied natural gas storage facility of 25,000 gallons or more or an expansion of an existing facility of 25,000 gallons or more. The credit is capped at fifteen million dollars or 50 percent of the development cost whichever is less. This credit is in addition to any other credits for which the storage facility is eligible under this chapter. States that the liquefied natural gas storage facility must be regulated by the Regulatory Commission of Alaska and establishes how the credit or payment shall be disbursed. Sets forth how a person who has received a credit shall repay the credit if the facility ceases commercial operations within the nine calendar years immediately following the calendar year in which the facility commenced commercial operations. This section also defines "liquefied natural gas storage facility", "ceases commercial operation" and "commences commercial operation".

Sections 6 & 7. Make conforming amendments to accommodate the new tax credits under AS 43.20.047.

Section 8. Establishes an immediate effective date for the legislation.

Co-Chair Stoltze OPENED public testimony.

[10:32:35 AM](#)

BARBARA HUFF TUCKNESS, DIRECTOR, LEGISLATIVE AND GOVERNMENTAL AFFAIRS, TEAMSTERS LOCAL 959, spoke in favor of HB 289. She stated that the high cost of home heating was driving young people to the Lower 48. She said that those that have stayed, and who were attempting to build a life in Alaska, were paying high fuel costs that made it difficult to save money. She urged passage of the legislation.

GENE THERRIALT, VICE PRESIDENT, RESOURCE DEVELOPMENT, GOLDEN VALLEY ELECTRIC ASSOCIATION, testified in support of the HB 289. He stated that the legislation would help to achieve parity with the credit that was allowed for the addition of storage in the natural gas distribution supply chain, which had been established by the Cook Inlet Recovery Act. He relayed that methane expanded 600 times

when going from a liquid to a gas, illustrating the dynamics of storing the same resource in different forms. He hoped that a threshold could be created in statute that applied for the storage of the methane in liquid state, under a sensible threshold. He stated that in a previous committee the threshold had been reduced to 25,000 with the idea that the resource would be available to communities on the highway system. He shared that the Golden Valley Board of Directors was focused on building an initial plant that would aggregate the largest possible demand and drive the per unit costs down as far as possible. Additionally, the association was requesting parity on the forgiveness of state land lease payments. He shared that when the act was passed there had been little thought given concerning the different routes that could be taken when leasing state lands. He said that the association was asking to be given the same terms as the recovery act concerning the waiver of state land lease payments.

[10:38:53 AM](#)

Mr. Therriault relayed the importance that the legislation reflect that Golden Valley was a tax exempt entity. He stated that the legislation suggested a window opportunity that would be open until 2020 for the addition of the storage. He informed the committee that the association was moving forward with the trucking operation, working out the details, and working with the large industrial users in Fairbanks to make trucking gas an economic reality. He said that knowing this year whether the storage credit would be available for the project would be helpful.

Co-Chair Stoltze hoped Mr. Therriault would return for further discussion of the legislation.

Mr. Terriault informed the committee that a 2009 review of the trucking concept written by AIDEA was available upon request. He said that the report indicated that trucking would make economic sense as long as it served the needs of the two identified industrial users: Flint Hills and Golden Valley.

JERRY CLEWORTH, MAYOR, FAIRBANKS (via teleconference), explained that energy problems were abundant in Fairbanks. He stressed that the amount of money residents paid for heat in the interior was at crisis level. He stated that it cost \$8,000 to \$10,000 per year to heat his small, energy

efficient home; that cost was double in rural Alaska. He urged passage of the legislation.

[10:44:17 AM](#)

Co-Chair Stoltze CLOSED public testimony.

Vice-chair Fairclough pointed to Page 6, line 6. She understood that the term "person's corporate returns" in the bill referred businesses, corporations, and non-profits.

Ms. Pearson responded in the affirmative.

Vice-chair Fairclough requested further explanation of refund requests. She expressed concern that a refund could be requested that might exceed the requester tax liability. She noted that qualifying costs were not listed in the legislation. She directed attention to Line 25:

"A person may not receive a credit under this section for the acquisition of a liquefied natural gas storage facility for which a credit has been taken already."

Vice-chair Fairclough asked if the language meant that the person could receive a credit for purchasing a facility. She wondered whether Golden Valley had an asset available for purchase. She requested further explanation concerning the interest applied to refunds mentioned on Page 8.

Co-Chair Stoltze handed the gavel to Vice-chair Fairclough.

Ms. Pearson replied that interest would be accruing if a credit or payment were to be given in error.

Vice-chair Fairclough stated that it was important that the state protect itself from lawsuits pertaining to incurring interest on refund payments.

[10:48:11 AM](#)

Representative Wilson asked whether the bill would extend credits to enlarge the natural gas storage facility in her area.

Ms. Pearson replied in the affirmative.

Representative Wilson reiterated the need for a natural gas pipeline.

Representative Neuman pointed to Page 5 of the bill. He understood that the credits were for tax liability owed to the state. He wondered if the credits would be applied against corporate taxes owed to the state.

Ms. Pearson answered that the credits could be applied against corporate taxes if corporate taxes were not due.

Representative Neuman discussed the taxable year in which the liquefied natural gas storage facility commenced commercial operations. He understood that the refunding of the costs incurred could be applied for only once.

Ms. Pearson responded that an additional expansion, over 25,000 gallons, would also allow for an application.

Vice-chair Fairclough thought that it was imperative that "qualified expenses" be clearly defined in the bill.

Representative Costello requested further explanation about the money for the credits being under the oversight of the RCA. She queried whether the naturally occurring storage fell under the oversight of the RCA as well.

[10:51:50 AM](#)

Ms. Pearson explained that any credits taken, or payments made, would be passed on to the consumer, and would be overseen by the RCA.

Representative Costello asked if the bill achieved the parity voiced by Mr. Terriault, or were there areas that needed more work.

Ms. Pearson replied that the bill worked to achieve equal parity.

Representative Neuman wondered whether the facility was meant to be above ground.

Ms. Pearson responded in the affirmative.

Representative Neuman wondered about opportunities for subsurface storage. He said that there were various opportunities for subsurface storage facilities around the state that should be recognized.

Ms. Pearson replied that she did not know enough about below ground storage to answer.

Representative Neuman believed it was important because it could open up a variety of opportunities statewide.

[10:55:01 AM](#)

Representative Doogan highlighted the indeterminate fiscal note. He suggested that the committee was receiving an increasing amount of indeterminate notes. He opined that the finance committee could not craft good policy without knowing what the cost would be to the state. He believed that DNR and DOR should be able to provide educated cost estimates to the committee.

Vice-chair Fairclough agreed. She expressed concern that the committee passed legislation without knowing the actual fiscal implications to the state.

Vice-chair Fairclough explained that, for reasons related to safety, Anchorage had done everything it could to get rid of above ground gas storage. She wondered if the same safety issues could be applied to Fairbanks.

Ms. Pearson would get back to the committee with responses.

Representative Neuman directed attention to Page 6, which spoke to refunds on the unused portion of the tax credit. He worried about credits being incurred that were beyond the corporation's tax liability to the state.

Ms. Pearson replied that some of the corporations were non-profits, or had become LLC corporations, which were non-taxable entities. She believed that the savings to the state would be passed onto the consumers.

Representative Neuman understood that the \$15 million tax credit could be given to anyone who applied.

Vice-chair Fairclough agreed that the bill could be made clearer. She clarified that the number was \$15 million or

less, up to 50 percent of qualified costs. She noted that the sponsor had been careful to assure that with RCA oversight and auditing, the savings would be reflected in a rate reduction to consumers in the Fairbanks area.

HB 289 was HEARD and HELD in Committee for further consideration.

#hb170

HOUSE BILL NO. 170

"An Act relating to municipal property tax exemptions on residences of certain volunteer emergency services personnel and the widows and widowers of volunteer emergency services personnel; and providing for an effective date."

HB 170 was SCHEDULED but not HEARD.

#hcr24

HOUSE CONCURRENT RESOLUTION NO. 24

Relating to the establishment and operation of a state food resource development working group.

HCR 24 was SCHEDULED but not HEARD.

#

ADJOURNMENT

[11:01:50 AM](#)

The meeting was adjourned at 11:01 AM.