

HOUSE FINANCE COMMITTEE
April 14, 2014
8:42 a.m.

8:42:53 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 8:42 a.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Lindsey Holmes
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Joe Balash, Commissioner, Department of Natural Resources; Jeff Ottesen, Director, Division of Program Development, Department of Transportation and Public Facilities; David Bloom, P.E., Gasline Liaison, Department of Transportation and Public Facilities; Pat Kemp, Commissioner, Department of Transportation and Public Facilities.

SUMMARY

HB 287 APPROVE TESORO ROYALTY OIL SALE

CSHB 287 (FIN) was REPORTED out of committee with no recommendation and with one new indeterminate fiscal note from the Department of Natural

Resources and one new indeterminate fiscal note from the Department of Revenue.

CSSB 138(FIN) am

GAS PIPELINE; AGDC; OIL & GAS PROD. TAX

CSSB 138(FIN) am was HEARD and HELD in committee for further consideration.

#hb287

HOUSE BILL NO. 287

"An Act approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro Corporation and Tesoro Refining and Marketing Company LLC; and providing for an effective date."

[8:43:12 AM](#)

Co-Chair Stoltze noted that amendment 1 was withdrawn and amendment 3 was an amended version.

Representative Wilson MOVED to ADOPT Amendment 3, 28-GH2862\A.11, Gardner/Nauman, 4/13/14 (copy on file), by Representative Wilson and Representative Thompson.

Page 1, line 1, following "Act":

Insert "relating to the determination of the royalty received by the state on oil production refined or processed in the state; providing tax credits for qualified infrastructure expenditures for in-state refineries;"

Page 1, following line 4:

Insert new bill sections to read:

"* Section 1. AS 38.05.180(cc) is amended to read:
(cc) The provisions of (aa), [AND] (ee), and (hh) of this section do not prohibit the commissioner from accepting any payment on a federal lease tendered by the federal agency responsible for determination and transmittal of the payment to the state under 30 U.S.C. 191 or otherwise due the state as the state's royalty share of gas production or the state's royalty share of oil production irrespective of the state's acceptance of an amount that is different than the amount due under the lease for purposes of determining

royalty share on oil and gas production under that subsection.

* Sec. 2. AS 38.05.180 is amended by adding new subsections to read:

(hh) Upon written request of a lessee of a lease issued under this section or of a lessee of federal land from which the state is entitled to receive a share of the royalty on oil production, the commissioner may enter into an agreement with the lessee to accept, as a value for the state's royalty share of oil production sold to an in-state refiner, an amount that is not less than the price established in a contract between the lessee and the in-state refiner but not exceeding the amount that would otherwise be due under the lease. This subsection applies to a contract entered into after December 31, 2014. The commissioner shall respond to a request received under this section within 90 days after the receipt of the request by the department. The commissioner may enter into an agreement under this section if

- (1) the commissioner issues a written finding that
 - (A) the agreement is in the best interest of the state;
 - (B) the parties to the contract between the lessee and the in-state refiner are not affiliated under (2) of this subsection; and
 - (C) based on clear and convincing evidence,
 - (i) the contract price is not unreasonably low; and
 - (ii) the prospective reduction in royalty receipts will be balanced by employment opportunities or other tangible benefits to the state; and
- (2) the primary function of the in-state refiner's contracting with the lessee is to engage in the manufacture of refined petroleum products in the state, and the in-state refiner is not affiliated with the lessee or with a subsequent purchaser of more than 10 percent of the in-state refiner's product; the parties to a contract or purchase are affiliated if, in the judgment of the commissioner, one of the parties to the contract or purchase exercises substantial influence over the policies and actions of the other as evidenced by a relationship based on common ownership or family interest or by action taken in concert whether or not that influence is based on stockholdings, stockholders, officers, or directors.
 - (ii) In (cc) and (hh) of this section,

(1) "in-state refiner" means a person engaged in the manufacture of refined petroleum products in the state;

(2) "price established in the contract between the lessee and the in-state refiner" includes tax reimbursement amounts, deliverability and other charges, and other forms of consideration paid by the in-state refiner, as appropriate, under the contract;

(3) "state's royalty share of oil production" includes payments on federal leases made to the state under 30 U.S.C. 191.

* Sec. 3. AS 43.20 is amended by adding a new section to read:

Sec. 43.20.053. Qualified in-state oil refinery infrastructure expenditures tax credit. (a) A taxpayer that owns an in-state oil refinery whose primary function is the manufacturing and sale of refined petroleum products to third parties in arm's length transactions may apply a credit against the tax due under this chapter for a qualified infrastructure expenditure incurred in the state for a tax year beginning after December 31, 2014, and before January 1, 2020. The total amount of credit a taxpayer may receive under this section may not exceed the lesser of 40 percent of qualified infrastructure expenditures incurred in the state during the tax year or \$10,000,000 for each in-state refinery for which qualified expenditures are incurred.

(b) A taxpayer applying the credit under this section against a liability under this chapter shall claim the credit on the taxpayer's return. A tax credit or portion of a tax credit under this section may not be used to reduce the taxpayer's tax liability under this chapter below zero. Any unused tax credit or portion of a tax credit under this section may be carried forward to the five tax years immediately following the tax year in which the qualified infrastructure expenditures were incurred.

(c) An expenditure that is the basis of the credit under this section may not be the basis for

(1) a deduction against the tax levied under this chapter;

(2) a credit or deduction under another provision of this title; or

(3) any federal credit claimed under this title.

(d) A person entitled to a tax credit under this section that is greater than the person's tax

liability under this chapter may request a refund or payment in the amount of the unused portion of the tax credit.

(e) The department may use money available in the oil and gas tax credit fund established in AS 43.55.028 to make a refund or payment under (d) of this section in whole or in part if the department finds that

(1) the claimant does not have an outstanding liability to the state for unpaid delinquent taxes under this title; and

(2) after application of all available tax credits, the claimant's total tax liability under this chapter for the calendar year in which the claim is made is zero.

(f) A refund under this section does not bear interest.

(g) The issuance of a refund under this section does not limit the department's ability to later audit or adjust the claim as provided in AS 43.05 if the department determines that the taxpayer claiming the credit was not entitled to the amount of the credit.

(h) In this section,

(1) "qualified infrastructure expenditure" means an expenditure directly attributable to the in-state purchase, installation, modification, adjustment, or other alteration of tangible personal property for the manufacture or transport of refined petroleum products or petroleum-based feedstock;

(2) "refined petroleum products" means separate marketable elements, compounds, or mixtures of oil in liquid form, including gasoline, diesel, jet fuel, gas oil, heating oil, and kerosene;

(3) "unpaid delinquent tax" means an amount of tax for which the department has issued an assessment that has not been paid and, if contested, has not been finally resolved in the taxpayer's favor.

* Sec. 4. AS 43.55.028(a) is amended to read:

(a) The oil and gas tax credit fund is established as a separate fund of the state. The purpose of the fund is to purchase transferable tax credit certificates issued under AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 and to pay refunds and payments claimed under AS 43.20.046, [OR] 43.20.047, or 43.20.053.

* Sec. 5. AS 43.55.028(g) is amended to read:

(g) The department may adopt regulations to carry out the purposes of this section, including standards and

procedures to allocate available money among applications for purchases under this chapter and claims for refunds and payments under AS 43.20.046, [OR] 43.20.047, or 43.20.053 when the total amount of the applications for purchase and claims for refund exceed the amount of available money in the fund. The regulations adopted by the department may not, when allocating available money in the fund under this section, distinguish an application for the purchase of a credit certificate issued under former AS 43.55.023(m) or a claim for a refund or payment under AS 43.20.046, [OR] 43.20.047, or 43.20.053."

Page 1, line 5:
Delete "Section 1"
Insert "Sec. 6"

Re-number the following bill sections accordingly.

Page 2, following line 1:
Insert a new bill section to read:
"* Sec. 7. Sections 1 - 5 of this Act take effect January 1, 2015."

Re-number the following bill section accordingly.

Page 2, line 2:
Delete "This"
Insert "Except as provided in sec. 7 of this Act, this"

Representative Gara OBJECTED for the purpose of discussion.

Representative Wilson explained that the amendment addressed the removal of the in-state refinery tax credit. She pointed to page 3, line 1 of the amendment related to a "qualified in-state oil refinery infrastructure expenditures tax credit" for a tax year beginning after December 31, 2014 and before January 1, 2020. She explained that the total amount of credit a taxpayer may receive could not exceed less than 40 percent of qualified infrastructure expenditures.

[8:45:09 AM](#)

JOE BALASH, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, stated that he supported the amendment.

Representative Gara appreciated the amendment and the problem. He wished to keep refineries in business. He pointed out that Tesoro Refining and Marketing Company was on record stating that they did not need the tax credit. He pointed to page 4, line 6 and the issue of qualified infrastructure expenditures. He noted that any modifications made by the company would allow for eligibility for the credit. He explained that \$25 million in expenditures allowed \$10 million in credit from the state. He opined that giving \$50 million to a company that did not need it was poor policy. He stated that he could not support the amendment. He believed that the solution was not tailored to the problem.

Representative Gara agreed with Co-Chair Austerman that a tailored solution would include a low-interest loan from the Alaska Industrial Development and Export Authority (AIDEA) for those companies that would benefit from the loan. He proposed the idea of waiving interest payments for the initial four or five years for Petro Star. Another suggestion was limiting the tax credit to financially distressed companies.

[8:50:18 AM](#)

Co-Chair Austerman reiterated concern about the original amendment creating a tax credit for the refineries. He considered that proposed amendment a giveaway. He noted that the new amendment removed the first part of the original amendment. He expressed concern with page 3, beginning on line 21. The portion of the bill stated that without profit or tax liability, the state would provide the credit anyway. He stated that the sponsor was aware of his concerns. He believed that a true tax credit addressed corporate taxes. He stated that he would offer an amendment to the amendment.

[8:52:44 AM](#)

Representative Thompson understood the concern about instate refineries. He mentioned the additional concern of losing two refineries along the Trans-Alaska Pipeline System (TAPS) line. He pointed out that the two Alaskan refineries contributed \$335 million to the state for the instate use of oil from the TAPS line. He did not know if the \$10 million would allow for continued viability of the

refineries. He noted that a refinery closure would lead to a \$335 million shortfall from the loss of revenues. The additional implications included the potential for skyrocketing electric bills in Fairbanks. He suggested that Fairbanks would be included in the Power Cost Equalization program (PCE), which would cost the state millions of dollars. He anticipated that closure of the refineries would mean a closure of Eielson Air Force Base because of the lack of jet fuel leading to the loss of 1500 civilian jobs. He noted that the rural areas north of Fairbanks depended on fuel oil produced in the refineries. He stated that the tax credits presented in the bill would not be great enough to keep the refineries healthy. He expressed support for the amendment, but lamented that it would not be enough.

[8:55:47 AM](#)

Co-Chair Austerman MOVED amendment 2 to amendment 3.

Page 3, lines 21 through Page 4, line 4
Delete subsection (d), (e), (f), (g)
Renummer the sections accordingly

Representative Thompson OBJECTED.

Co-Chair Austerman discussed the amendment to amendment 3. The deleted subsections were related to the refund and payment.

Representative Wilson clarified that the proposed amendment to the amendment would further complicate matters for the targeted refinery. The amendment would force an Interior refinery to compete with imports. She stated that the tax credit was not unique. She opined that the state should have acted one year ago. She stated that earlier legislative actions might have prevented the closure of Flint Hills Refinery. She mentioned that the credits allowed did not always produce the expected results.

[8:58:47 AM](#)

Representative Wilson stated that the credits provided to various entities provided uncertain returns. She noted that the removal of the subsections would negate the potential benefit of the tax credits.

8:59:49 AM

Representative Gara opined that the proposed solution did not match the problem. He provided an example of attempting to reform the foster care system in the same manner and predicted that a similar proposal would be denied quickly. He suggested seeking a remedy to fiscally solve the problems. He supported the Eielson Air Force Base and additional military equipment in Alaska. He stated that the word "efficiency" did not appear in the bill. He noted that the companies could spend the credit on anything without specification or recommendation from the legislature. He stated that there was no limitation to the amount of money kept by executives. He suggested that AIDEA could arrive at a better solution and he proposed a consultation. He stressed that he represented the entire state and cared about the Fairbanks area.

Representative Gara stated that the amendment to the amendment was not in his best interest. He recognized the efforts to narrow the fiscal spend on the legislation. He considered the bill language sloppy.

9:03:55 AM

Vice-Chair Neuman asked for Commissioner Balash's opinion about the effects of the amendment to the amendment. He understood that the change would help the Petro Star refineries with solutions regarding debt.

Commissioner Balash replied that the effect of amendment 2 to amendment 3 would delete subsections (d), (e), (f) and (g) on lines 3 and 4. He spoke to subsections (e), (f) and (g) that would allow a company without a robust tax liability to take the tax credit earned following a qualified investment and request a refund. The request would be made to the Department of Revenue. The deletion of the subsections would eliminate the opportunity leaving the company with an unusable tax credit. He appreciated the intent and noted that the credit was not optimal, but necessary considering the seriousness of the circumstances faced.

Co-Chair Stoltze asked the administration's position on the amendment to the amendment.

Commissioner Balash replied that the administration opposed the amendment to the amendment.

[9:06:55 AM](#)

Representative Thompson noted that a tax credit was an indirect expenditure to the state. In order to receive the \$10 million, the entity must invest \$25 million. After three years the \$30 million state investment could be compared to \$335 million in revenue from the refineries.

Co-Chair Stoltze requested elaboration of the \$335 million figure.

[9:08:38 AM](#)

Commissioner Balash replied that the ability to sell the state's royalty in-kind to instate refineries over the last three years resulted in \$136 million to the treasury. He added that the quality bank payments made in 2013 amounted to approximately \$100 million. The benefit achieved on the royalty side was in excess of \$20 million. He pointed out the indirect effect on production tax value of 35 percent of the remaining value or approximately \$35 million. He noted that the values were higher in 2012 and 2011 because of the Alaska's Clear and Equitable Share (ACES) tax system. He stated that the estimate provided by Representative Thompson was a little high as they included progressivity calculations no longer available. He estimated approximately \$300 million in positive impact to the treasury.

[9:11:46 AM](#)

Co-Chair Stoltze assumed that the public was not aware of that information.

Representative Thompson asked what percentage of the quality bank payment was allocated to the state.

Commissioner Balash replied that the state received a direct benefit as a percentage based on royalties. The state would receive 12.5 percent of the royalty if \$100 million was paid by the refineries. He added that production tax resulted in additional payments to the treasury associated with the tax rate.

[9:12:51 AM](#)

Representative Munoz asked if the language in the original amendment was consistent with other North Slope policy credit opportunities.

Commissioner Balash replied yes. He noted that production tax credits were handled similarly under the oil and gas production tax system.

[9:13:44 AM](#)

Representative Holmes pointed out subsection (d) and her prior concerns. She stated that the underlying amendment was proposed to preserve the refineries' presence in the future. She stated that tax credits should be written off of tax liabilities. She appreciated the amendment to the amendment, but she wished to help the refineries in the short term. She worried that the refineries would not continue to operate for the next five years if the amendment to the amendment were to pass.

[9:15:50 AM](#)

Representative Gara discussed the quality bank. He understood that Petro Star deemed the quality bank formula unfair. He wondered if the state had intervened in such a legal matter related to the refineries.

[9:16:49 AM](#)

Commissioner Balash replied that payers into the bank aided recipients from the bank, using the quality bank formula. He noted that the state was considered a recipient. If the system worked perfectly, a refinery shut-down would lead to higher oil prices. He was unprepared to comment on the fairness of the quality bank. He noted that the state had intervened on proceedings regarding the quality bank. The goal of the administration was for a favorable ruling that made an adjustment to the quality bank or to achieve a settlement that would reduce the cost associated with the quality bank payments.

[9:20:02 AM](#)

Co-Chair Austerman stated that the issue of tax credits was philosophical to him, as it always had been. He understood

the refinery issue. He noted similar debates related to oil taxes in the last three years. He had sympathy for the refineries, but noted that the global market was at issue. He stated that addressing the very serious issue at the end of the session was unpalatable. He informed the committee that amendment 3 allowed a lesser investment as the credit would provide \$10 million each year.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Austerman

OPPOSED: Thompson, Wilson, Costello, Edgmon, Guttenberg, Holmes, Munoz, Neuman, Stoltze

The MOTION FAILED (2/9).

Amendment 3 was before the committee

A roll call vote was taken on the motion.

IN FAVOR: Wilson, Costello, Edgmon, Guttenberg, Holmes, Munoz, Neuman, Thompson, Stoltze

OPPOSED: Gara, Austerman

The MOTION PASSED (9/2).

Amendment 3 was ADOPTED.

[9:24:27 AM](#)

Representative Gara MOVED to ADOPT Amendment 2.

Page 1, line 1, following "Act":

Insert "creating a loan program for certain in-state oil refineries;"

Page 1, following line 4:

Insert a new bill section to read:

"* Section 1. AS 44.88 is amended by adding a new section to read:

Article 9A. In-State Refiner Loan Program.

Sec. 44.88.800. In-state refiner loan program. (a) The authority may make loans of up to \$20,000,000 to a person that owns an in-state oil refinery south of 68 degrees North latitude if the primary function is the manufacturing and sale of refined petroleum products to third parties in arm's length transactions. A loan under this section may be used for working capital,

equipment, construction, or other commercial purposes. A loan under this section may be made only if the authority finds that

(1) the loan is required to maintain profitability of the in-state refiner and the refinery would otherwise be in financial distress; and

(2) the primary function of the in-state refiner is to engage in the manufacture of refined petroleum products in the state, and the in-state refiner is not affiliated with the lessee or with a subsequent purchaser of more than 10 percent of the in-state refiner's product; the parties to a contract or purchase are affiliated if, in the judgment of the authority, one of the parties to the contract or purchase exercises substantial influence over the policies and actions of the other as evidenced by a relationship based on common ownership or family interest or by action taken in concert whether or not that influence is based on stockholdings, stockholders, officers, or directors.

(b) A loan made under this section

(1) may not exceed a term of 10 years; and

(2) may not bear interest exceeding the prime rate, as defined by AS 44.88.599, plus two percentage points.

(c) Repayment of a loan issued under this section may begin as late as July 1, 2019, if the loan is secured by sufficient collateral or a guarantor.

(d) The application for a loan under this section must be received by the authority before December 31, 2015.

(e) The legislature may appropriate the money required to make a loan issued under this section prudent for the authority.

(f) The authority by regulation may establish other conditions for loans under this section."

Page 1, line 5:
Delete "Section 1"
Insert "Sec. 2"

Renumber the following bill section accordingly.

Representative Wilson OBJECTED.

[9:26:15 AM](#)

Representative Gara reiterated his request for a consultation from AIDEA about the important issue. He stated that the amendment was drafted without AIDEA's help. He noted that the committee members shared a goal of protecting the financially distressed refineries. Amendment 2 stated that AIDEA shall offer low interest loans to distressed refineries as seen on line 14, page 1. The loan would extend to \$20 million per year with an interest rate of 2 percent. The loan would allow for a five-year repayment holiday. He believed that the fiscal health of the state would remain protected by the amendment. He noted that Tesoro requested the underlying royalty renewal bill as opposed to the tax credit. The amendment would allow the loans to be accessed by the companies in need of help. The general fund would reimburse AIDEA if the loan terms were too generous. He stressed that AIDEA would be the ideal drafter of an amendment to protect businesses in Alaska. Amendment 2 would save the state \$50 million over the last version of the amendment, which allowed \$50 million for Tesoro.

[9:30:58 AM](#)

Co-Chair Stoltze stated that Representative Gara could have invited AIDEA to the conversation.

[9:31:23 AM](#)

Representative Wilson informed the committee that she had contacted both AIDEA and Petro Star. She was told that a loan was not available for a company that might not succeed. She suggested that Tesoro could benefit from upgrades. The loss of the refineries and their contribution to the state would be greater than the money available for use as tax credits. She stressed the critical nature of the problem.

Co-Chair Stoltze requested committee protocol.

[9:33:28 AM](#)

Representative Wilson stressed that the amendment could lead to the loss of two refineries in Alaska. She stated that other businesses connected to the refineries would suffer as well. She asked the administration's view of the amendment.

[9:34:43 AM](#)

Representative Edgmon recalled testimony from Petro Star. He understood that the amendment would not address the financial situation encountered by Petro Star. He stated that a broader public purpose was involved; support of the refineries allowed them to continue functioning. He stated that he was unprepared to support the amendment.

[9:35:46 AM](#)

Commissioner Balash replied that Representative Edgmon's characterization of the situation was accurate. He stated that the administration opposed amendment 2. He mentioned the premise that low-interest loans were the answer. The credit would reduce the cost of the investment for the refinery. He noted that financing for the outlay would reduce the cash expended up-front. He stressed that financing that extended beyond two or three years was not an option without the benefit of the investment credits.

[9:38:26 AM](#)

Vice-Chair Neuman stated that the refineries' business plans depended on state credits for survival. He opined that the closure of Flint Hills Refinery allowed more business to competitors.

Commissioner Balash replied that he would agree with Vice-Chair Neuman if costs remained the same. Unless more than \$3 million was created by the loss of the competitor, the situation was worse for competitors without Flint Hills Refinery operations.

Vice-Chair Neuman asked about a revenue request. He wondered if the state should refuse the \$3 million.

[9:41:04 AM](#)

Commissioner Balash replied that the revenue requirement in question was the amount of money required to operate the two pipelines regulated by the Regulatory Commission of Alaska for purposes of paying their costs. The total \$4.5 million went to Golden Valley Electric Association (GVEA) for the cost incurred to construct and operate the pipelines.

Co-Chair Stoltze noted that there would not be a lengthy debate on the final passage of the bill.

Representative Wilson clarified that Flint Hills Refinery had closed their refinery yet continued to meet all obligations related to jet fuel and gasoline. The customers would continue to receive service through imports. The other refineries were forced to compete with imports.

Co-Chair Austerman referred to a past discussion requesting that AIDEA provide a recommendation. He agreed that the issue was complex and help from AIDEA would be welcome. He understood that the banking institutions would not help the refineries because of past failures. He argued about the lack of criteria attached to the tax credits. He felt that the information requested from AIDEA should be available to members making the decision.

[9:44:57 AM](#)

Representative Gara pointed out that Petro Star had ten years to repay the money. He stated another requirement for a Fortune 500 guarantor. Without the amendment, there was no guarantee that the refinery would not accept the money for five years and then disappear. He stated that a loan would force the business model to work. The cash payment would not provide the documentation necessary to allow the state to monitor the use of the tax credit by the refinery.

[9:47:47 AM](#)

A roll call vote was taken on the motion.

IN FAVOR: Costello, Gara, Austerman
OPPOSED: Edgmon, Guttenberg, Holmes, Munoz, Neuman,
Thompson, Wilson, Stoltze

The MOTION FAILED (3/8).

[9:49:23 AM](#)

Co-Chair Stoltze CLOSED public testimony.

[9:49:43 AM](#)

Representative Thompson MOVED to REPORT CSHB 287 (FIN) out of committee with individual recommendations and the accompanying forthcoming fiscal notes.

Representative Guttenberg OBJECTED. He objected to the timing of the bill's hearing. He stated that the comprehensive information regarding the refineries was unavailable to the committee. He requested more information. He believed that both Petro Star and AIDEA should be present to further inform the committee.

Representative Guttenberg REMOVED his objection.

Co-Chair Stoltze stated that Representative Guttenberg echoed many of his concerns.

Representative Gara OBJECTED for the purpose of solution. He credited many experts in the state who might help the legislature make the best decision. He objected to the fact that AIDEA had not crafted a solution. He hoped that a fiscally responsible solution would be crafted before the bill hit the House Floor.

Representative Gara WITHDREW his objection. There being NO OBJECTION, it was so ordered.

[9:55:28 AM](#)

CSHB 287 (FIN) was REPORTED out of committee with no recommendation and with one new indeterminate fiscal note from the Department of Natural Resources and one new indeterminate fiscal note from the Department of Revenue.

#sb138

CS FOR SENATE BILL NO. 138(FIN) am

"An Act relating to the purposes, powers, and duties of the Alaska Gasline Development Corporation; relating to an in-state natural gas pipeline, an Alaska liquefied natural gas project, and associated funds; requiring state agencies and other entities to expedite reviews and actions related to natural gas pipelines and projects; relating to the authorities and duties of the commissioner of natural resources relating to a North Slope natural gas project, oil and gas and gas only leases, and royalty gas and other gas received by the state including gas received as

payment for the production tax on gas; relating to the tax on oil and gas production, on oil production, and on gas production; relating to the duties of the commissioner of revenue relating to a North Slope natural gas project and gas received as payment for tax; relating to confidential information and public record status of information provided to or in the custody of the Department of Natural Resources and the Department of Revenue; relating to apportionment factors of the Alaska Net Income Tax Act; amending the definition of gross value at the 'point of production' for gas for purposes of the oil and gas production tax; clarifying that the exploration incentive credit, the oil or gas producer education credit, and the film production tax credit may not be taken against the gas production tax paid in gas; relating to the oil or gas producer education credit; requesting the governor to establish an interim advisory board to advise the governor on municipal involvement in a North Slope natural gas project; relating to the development of a plan by the Alaska Energy Authority for developing infrastructure to deliver affordable energy to areas of the state that will not have direct access to a North Slope natural gas pipeline and a recommendation of a funding source for energy infrastructure development; establishing the Alaska affordable energy fund; requiring the commissioner of revenue to develop a plan and suggest legislation for municipalities, regional corporations, and residents of the state to acquire ownership interests in a North Slope natural gas pipeline project; making conforming amendments; and providing for an effective date."

[9:56:26 AM](#)

Co-Chair Austerman requested an understanding of the state's responsibility regarding the gas pipeline and the accompanying infrastructure. He noted that roads and bridges would provide important components of the project. He requested that Department of Transportation and Public Facilities provide input regarding Article 10 of the Heads of Agreement (HOA) and additional state support for the Alaska Liquefied Natural Gas (LNG) project. He pointed to Article 10.1 (c) "appropriations permitting for the construction of necessary instate infrastructure [roads, bridges] including drafting and introducing supporting legislation." He asked if the HOA reflected that the state

would be responsible for all infrastructure and improvement costs throughout the project. He interpreted the HOA to read that the state would be responsible for construction of all necessary infrastructures.

[9:58:31 AM](#)

PAT KEMP, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES introduced himself, Jeff Ottesen and David Bloom.

JEFF OTTESEN, DIRECTOR, DIVISION OF PROGRAM DEVELOPMENT, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES provided a historical background related to Alaska and pipeline construction. He stated that the department was not yet informed about the precise infrastructure needs required for the gasline project. He knew the general route established for the gas pipeline, but specifics had not been determined. He compared the project to Trans-Alaska Pipeline System (TAPS) and noted that current population and traffic was triple that of the 1970s. He wished to maintain safety standards and statistics on the Dalton Highway.

[10:02:36 AM](#)

Mr. Ottesen commented that the natural gas pipeline would be buried leading to additional earth work as compared to TAPS. He mentioned the need to replace the Tanana River Bridge as it presented a weak link between the Lower 48 and Alaska. He stated that both a large and medium diameter pipeline was proposed for the Parks Highway, which was parallel to the Alaska Railroad. He expected that the railroad would provide a major component of any logistics plan. The Richardson, Alaskan and Haines highways would have minimal improvements as well. He provided a handout "Parks Highway Planned Construction Information - 2014" (copy on file). He pointed out that many of the projects addressed features that would prove helpful to the pipeline construction such as 14 new passing lanes built on the Parks Highway in the summer of 2014.

[10:06:53 AM](#)

Mr. Ottesen discussed maintenance expenses ineligible for federal contribution. He expected the department to ask the legislature for general funds for the relatively small

costs averaging \$12-\$15 million annually. He stated that the department would provide more information when the logistics plan was determined. Highways were blessed with a dedicated source of federal funds that allowed for adaptation to the possibility of new pipelines. The Federal Aviation program was specific in its funding, which led the department to spend funds in areas disconnected from pipeline plans.

[10:09:40 AM](#)

DAVID BLOOM, P.E., GASLINE LIAISON, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, stated that he had very little exposure to the project via the sponsors. He mentioned a high-level overview provided to state and federal agencies offered by the project sponsors in February 2014. He mentioned another meeting in Fairbanks related to the permits required for the summer 2014 field season. He noted that upcoming information such as access and egress points for the laydown yard, and safety lanes on the highway would prove essential to the department. He pointed out that airports and their service needs also required consideration. He noted substantial improvements to the Dalton and Parks Highways with approximately \$120 million allocated to the Parks Highway maintenance for the summer of 2014.

[10:13:00 AM](#)

Co-Chair Austerman asked if the state would be expected to pay for the large module accommodation and road maintenance.

Mr. Kemp replied that highways and roadways within the right-of-way must accommodate legal or permit able loads. He stated that the highway must be strong enough to accommodate a permitted load. He believed that the department was responsible for the majority of the work. He stated that an intersection requiring an access road to the pipeline should be assigned to the developer. A similar arrangement was often embarked on with a large store requiring an intersection. He explained that some portions of the project allowed for federal participation, while others did not. The department would request some help from the legislature for those portions ineligible for federal funding. He stated that the Parks Highway required repairs whether the pipeline was constructed or not. He added that

the Parks Highway was not free of weight restrictions. Understanding the Alaska Railroad's level of responsibility would help the department to better understand theirs.

[10:16:50 AM](#)

Co-Chair Austerman asked if layout yards or pull-off areas for larger modules would be constructed by and paid for by the producers.

Commissioner Kemp replied that passing lanes would be an improvement addressed by the department, while the pull-off area for a module would be covered by the developer.

Co-Chair Austerman asked about the federal funds. He expressed concern that the Dalton and Parks Highways could use up the federal funds needed elsewhere in the state.

[10:18:02 AM](#)

Mr. Otteson replied that the many projects on the Parks and Dalton Highways were underway despite the potential pipeline. The work was prioritized because of the connection to Prudhoe Bay. The revenue from the oil resources fueled the Alaskan economy. He acknowledged the tension between projects and provided an example of such tension.

[10:20:08 AM](#)

Co-Chair Austerman agreed in reference to the importance of the North Slope, but noted that the benefit extended to the producers making the profit. He asked if any of the three testifiers helped draft the language in the HOA.

Commissioner Kemp replied no.

[10:21:09 AM](#)

Vice-Chair Neuman asked Mr. Ottesen about each proposed gasline. He wondered about Port Mackenzie as a staging area for either pipeline.

[10:22:01 AM](#)

Mr. Otteson replied yes; he expected Port Mackenzie to be a key staging area as part of the rail extension. Completing the extension was an important component of the project.

[10:22:34 AM](#)

Representative Guttenberg noted the \$800 million deferred maintenance budget on the Dalton Highway. The state was asked to fund the agreement in general terms. Massive amounts of heavy-walled pipe would compromise the asphalt and shoulders of the highway. He asked about the state's obligation entering into the project.

[10:23:51 AM](#)

Commissioner Kemp replied that the information would become available later. He questioned the deferred maintenance quote offered by Representative Guttenberg. He wondered if deferred maintenance was not confused with routine maintenance. He agreed that the questions must be answered, but stressed that the state's roadways were in better shape than they were in the time of TAPS construction. He noted the department's focus on safety in addition to accommodation of the increased industry traffic.

[10:25:02 AM](#)

Representative Gara noted that Governors Murkowski and Palin approached the legislature with infrastructure costs during their gasline proposals dependent on the size of the chosen pipeline. He recalled estimates of approximately \$2 billion worth of infrastructure increases. The legislators were able to incorporate the information into the Net Present Value calculations.

Co-Chair Austerman concurred.

CSSB 138(FIN) am was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:26:44 AM](#)

The meeting was adjourned at 10:26 a.m.