

HOUSE FINANCE COMMITTEE

April 16, 2014

8:38 a.m.

8:38:21 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 8:38 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

Brittany Hutchinson, Staff, Senator Bishop; Jane Pierson, Staff, Representative Steve Thompson; Rudi Vonimhof, President, Delta Leasing, Anchorage; Angela Rodell, Commissioner, Department of Revenue; Michael Barber, Assistant Attorney General, Department of Law; Senator Cathy Geissel, Sponsor; Jill Lewis, Deputy Director, Division of Public Health, Department of Health and Social Services; Michael Pawlowski, Deputy Commissioner, Strategic Finance, Department of Revenue; Joe Balash, Commissioner, Department of Natural Resources.

PRESENT VIA TELECONFERENCE

Sam Robert Brice, Brice Companies, Fairbanks; Ryan Peterkin, Magtec Alaska, Kenai; Doug Johnson, CFO, Tyler Rental.

SUMMARY

CSSB 138(FIN) am

GAS PIPELINE; AGDC; OIL & GAS PROD. TAX

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

CSSB 169(FIN)

IMMUNIZATION PROGRAM; VACCINE ASSESSMENTS

HCSCSSB 169(HSS) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal note from Fund Transfers for the Department of Health and Social Services, one new fiscal note from the Department of Health and Social Services, one new indeterminate fiscal note from the Department of Health and Social Services, one previously published zero fiscal note: FN4 (CED), and one previously published indeterminate fiscal note: FN5 (ADM).

CSSB 178(FIN)

PASSENGER & REC. VEHICLE RENTAL TAX

CSSB 178(FIN) was HEARD and HELD in committee for further consideration.

CSSB 191(FIN)

GENERAL OBLIGATION BOND FUND TRANSFER

CSSB 191(FIN) was HEARD and HELD in committee for further consideration.

#sb191

CS FOR SENATE BILL NO. 191(FIN)

"An Act relating to the authority of the Legislative Budget and Audit Committee to approve the temporary transfer of money from the general fund to construction funds or accounts; and providing for an effective date."

#sb178

CS FOR SENATE BILL NO. 178(FIN)

"An Act relating to the passenger and recreational vehicle rental taxes; and providing for an effective date."

[8:38:21 AM](#)

BRITTANY HUTCHINSON, STAFF, SENATOR BISHOP, offered a brief overview of the bill.

[8:40:59 AM](#)

Co-Chair Stoltze asked where the bulk of the rental tax monies had been spent to date.

Ms. Hutchinson replied that she did not know.

[8:41:14 AM](#)

Co-Chair Stoltze asserted that the funds was one that had been preyed upon by many interests.

Co-Chair Austerman discussed Page 1, line 5:

Sec. 43.52.010. Levy of passenger and recreational vehicle rental tax.

Co-Chair Austerman understood that a person could fly to Anchorage and rent a recreation vehicle for 30 days without being subject to the rental tax.

Ms. Hutchinson replied in the affirmative.

Co-Chair Austerman surmised that the objective of the bill was to exempt recreational vehicles from the tax.

Ms. Hutchinson replied that the main objective had been to exempt passenger vehicles but that drafters had thought that in order to better organize the statute recreational vehicles should be included.

Co-Chair Austerman asserted that the addition of the recreational vehicles created a stumbling block and muddied the intent.

[8:43:27 AM](#)

Representative Wilson expressed her concern that the bill would result in a loss of revenue.

Ms. Hutchinson responded that the Department of Revenue (DOR), which had prepared the fiscal note, had noted a minimal loss of revenue.

Co-Chair Stoltze asked for a projection of the range of revenue loss.

Representative Wilson noted that the regulation had just been changed, which had seemed to have cleared up any misinterpretation of the statute. She maintained her concern that if the bill passed the revenue loss to the state would be significant.

[8:45:35 AM](#)

AT EASE

[8:45:55 AM](#)

RECONVENED

JANE PIERSON, STAFF, REPRESENTATIVE STEVE THOMPSON, thought that the committee would have a greater understanding as to why the bill existed if they listened to some public and invited testimony. She said that she had worked for months with the department in trying to craft and agreeable bill.

Co-Chair Stoltze agreed.

Co-Chair Stoltze OPENED public testimony.

[8:48:12 AM](#)

SAM ROBERT BRICE, BRICE COMPANIES, FAIRBANKS (via teleconference), testified in support of the bill. He stated that most of his company's vehicle rental use was on the North Slope by producers and support companies on private roads. He said that his facility was on a public road at the end of the Dalton Highway, but 99 percent of the rental activity of the vehicles was on the private oil field roads. He relayed that often the length of the rental term was unknown. He said that his company's liability went back to 2010, the first year of light vehicle rental, they paid \$31,000 as not to incur further penalties. He believed that the bill helped clarify the intent of the statue. He thought that there was more work to be done with DOR so

that all parties were clear as to what was applicable to the rental tax.

8:50:47 AM

Co-Chair Austerman asked whether the testifier's company rented recreational vehicles. Mr. Brice replied no. Co-Chair Austerman asked whether he had an opinion on recreational vehicles being added to the bill. Mr. Brice shared that his company mainly rented half-ton pick-ups that were used on private roads.

8:51:26 AM

Co-Chair Stoltze asked if the recreational vehicles had been added because they are one of two types of vehicles taxed under current law.

Ms. Pierson replied yes. She noted that the recreational vehicle rental fee was 3 percent.

Representative Costello asked how much back taxes were owed to the state by Mr. Brice.

Mr. Brice replied that the amount was not disclosed. All light vehicle rentals rented for less than 90 days would be applicable. He stated that he went back and researched his record in order to come up with the \$31,000 of liability, which the company had not collected because they had been unaware that they were expected to collect the tax.

8:52:57 AM

Representative Gara asked whether Mr. Brice's business would be effected if the exemption taxed rentals longer than a 40 day period.

Mr. Brice replied that the days of rental were not as important as was the interpretation concerning what kind of vehicles met the requirement for vehicles that fell under the tax. He reiterated that often the duration of the vehicle rental was unknown until it was returned to the business.

8:54:10 AM

RYAN PETERKIN, MAGTEC ALASKA, KENAI (via teleconference), testified in support of the bill. He noted that he first

learned about the tax in 2013 when a criminal investigator from DOR, accompanied by an armed enforcement officer, arrived at his place of business at Prudhoe Bay and informed him that he had been committing an enforceable, criminal crime by not charging the vehicle rental tax. He asserted that the department had not contacted him prior about the tax and that, to that point, he had never known of the tax. He stated if any of the vehicle rental businesses on the slope had been charging the tax it would have major competition between rental companies, which was not the case. He said that he contacted the department in an effort to correctly understand the tax code in order to immediately implement the collection of the tax. He opined that going through the process he found it difficult to deal with the vagueness and lack of clarification from DOR on the exemptions on the tax statute and regulations. He listed several exemptions that needed clarification.

[8:59:32 AM](#)

Co-Chair Austerman asked if he rented recreational vehicles.

Mr. Peterkin replied no.

[9:00:08 AM](#)

RUDI VONIMHOF, PRESIDENT, DELTA LEASING, ANCHORAGE, testified in support of the legislation. The primary office was located in Prudhoe Bay. He discussed communications with DOR in 2010, which consisted of two letters explaining that he did not feel that the tax applied to his customers for various reasons. He stated that he sent the letters, along with his leases, to the department and received no reply. He relayed that the following interaction with DOR included a raid by armed enforcement agents who confiscated 70 cases of paper files and company computers. He stated that his company remained under investigation for nonpayment of the vehicle rental tax. He stated that his company cooperated with the department. He paid all back-taxes even though they were never collected. He asserted that no other equipment vendors on the slope had collected the tax and he wished to clarify the issue with the department. He believed that there was a disagreement on whether Prudhoe Bay roads were considered public right-of-way. He pointed out the negative impact on his business and

thought that the language in the bill would clarify the exemptions.

[9:09:59 AM](#)

Co-Chair Austerman asked if he rented recreation vehicles.

Mr. Vonimhof replied no.

Representative Costello asked the amount he owed in back taxes.

Mr. Vonimhof replied no. She stated that he wrote a check in December 2012 for \$13 thousand for three years of pervious taxes that could potentially be applicable.

[9:12:27 AM](#)

DOUG JOHNSON, CFO, TYLER RENTAL (via teleconference), testified in support of the bill. He stated that the rental contracts were exempt from the current law because the vehicles were never driven on the state highway. He asserted that he had never received notice of the tax. He shared that he had paid the tax with a protest. He hoped that when the department responded back the issue would simply be an audit issue. He did not believe that the department should go after private companies. He thought that the 28 days should remain in the legislation. He relayed that he did not advertise to the tourist trade and did not rent recreational vehicles.

[9:16:08 AM](#)

Co-Chair Stoltze CLOSED public testimony.

ANGELA RODELL, COMMISSIONER, DEPARTMENT OF REVENUE, believed the bill recognized that taxes were to be applied fairly and equitably and without discrimination. She said that discussing the tax meant talking about the definitions of: what is a passenger vehicle rental, what is a truck (if done by weight), what is a sports utility vehicle (if done by mileage) how will rentals in small communities be effected, rental terms, and private roads versus public. She believed that the current version of the bill was the fairest and most complete that had been drafted. She relayed that the department was unsure of the impact the

legislation would have on the state, but felt it would be minimal.

[9:19:36 AM](#)

MICHAEL BARBER, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW, commented on the first two sentences of the letter of intent drafted by the sponsor:

It is the intent of the Senate Finance Committee that the passenger vehicle rental tax described in SB 178, including the original law and the changes made by the committee substitute, should not be applied to Alaskan businesses doing business with other Alaskan businesses.

The Department of Revenue (DOR) should not apply the tax retroactively to businesses it determines should be, or should have been, collecting the tax. However, if DOR is able to determine a business collected the tax but did not remit the tax to DOR, then DOR should charge back taxes, penalties and/or interest on those unpaid taxes.

Mr. Barber explained that the first sentence suggested that Alaskan businesses in general were exempt from the tax, which was not the case. He clarified that there was not express exemption in current statute for Alaskan businesses, and while Alaskan businesses were the primary beneficiaries of the changes proposed in the bill, the legislation would not create an exemption for Alaskan businesses. He stated that if the intent was to exempt all Alaskan businesses then it needed to be written into the bill; however, he expressed serious concern that such an action would violate the Dormant Commerce Clause of the United States Constitution.

Co-Chair Stoltze asked whether the letter had been adopted by the Senate. He noted that it appeared informal as it was not on letterhead, which was unusual.

Mr. Barber understood that the letter had been attached to the bill that was moved out of the Senate.

Representative Holmes asked whether the letter of intent was attached to the bill that had passed on the Senate Floor.

Mr. Barber replied in the affirmative.

Co-Chair Stoltze requested the record and the journal minutes pertaining to the meeting where the bill was passed.

9:23:12 AM

Representative Wilson asked if by changing the number of rental days to 28, the original intent of the bill would be honored.

Commissioner Rodell responded yes.

Representative Wilson asked if the lease went to a month-to-month, rather than yearly, would the tax problem be solved.

Commissioner Rodell replied that the bill did not change the time range of the rentals, but that the department had begun making changes including extensions of the original contracts would be included in the time period of the original contract. She said that the process had stopped while the bill was in motion because it referenced the 90 days in the original legislation. She said that if the bill were to pass the regulations would be amended to reflect that any extensions of an original contract would be included in the contract period for counting vehicle rental tax exemptions.

9:25:01 AM

Co-Chair Austerman understood that if a recreational vehicle was rented for more than 28 days then the tax would not be implemented. He surmised that the objective of the bill was to not impose the tax on businesses on the North Slope that did not frequently use public roads. He maintained confusion as to why recreational vehicles were included in the legislation.

Commissioner Rodell believed that the recreation vehicle exemption already applied to the 90 days, so it was rolled into the new exemption in order to avoid creating two separate exemptions. She said that this created an administrative ease for DOR in terms of application.

Co-Chair Austerman understood that it would apply to a vehicle rented at an airport that was driven for 28 days.

Commissioner Rodell replied yes.

Co-Chair Austerman said that the issue made it difficult for him to support the bill.

[9:27:28 AM](#)

Representative Gara asked whether Mr. Barber was prepared to speak to the possibility that the letter of intent could be unconstitutional in discriminating against non-Alaskan businesses.

Mr. Barber clarified that not all Alaska businesses were exempt from the tax, but had to meet exemptions currently in statute. He said that an exemption for Alaskan businesses would be facially discriminatory against interstate commerce and would be subject to a high level of scrutiny. He believed that the letter of intent would not be applied unconstitutionally.

Representative Gara surmised that passing the letter would not open the door for the bill to be attacked on constitutional grounds.

Mr. Barber suggested that clarifying the letter of intent would be beneficial before the bill's passage.

[9:29:48 AM](#)

Representative Munoz discussed the 10 percent charge on passenger vehicles and the 3 percent charge on recreational vehicles. She wondered what the overall revenue was for the two taxes.

Commissioner Rodell replied that the total tax revenue was approximately \$8 million for FY13.

Representative Munoz asked if most of the revenue was from recreational vehicles.

Commissioner Rodell replied that she did not know.

[9:30:30 AM](#)

Representative Munoz asked whether removing references in the code to the passenger tax had been considered.

Commissioner Rodell replied no. She said that different ways of more narrowly defining a passenger vehicle had been discussed, but that the issue quickly became complicated.

Representative Munoz thought that the confusion surrounded the utility vehicles and those used on the North Slope. She thought that if reference from the passenger vehicle tax could be removed in statute it would speak to the original intent of the tax.

Co-Chair Stoltze thought that the department could look to the hospitality industry for ways to set clearly demarcated taxes. He requested further background from the department concerning the collection of the tax.

[9:32:57 AM](#)

Commissioner Rodell replied that the department would enforce the statutes as drafted. She stated that when the department received information that individuals or companies were not in compliance, investigation and auditing was necessary. She stated that the mission of the Department of Revenue was to collect taxes. She asserted that businesses owners were responsible for knowing the laws that governed the business. She felt that there had been confusion regarding the tax passed in 2004.

[9:35:20 AM](#)

Co-Chair Austerman believed that the intention was to save businesses money on certain things. He asked about simply implementing an exemption strictly for oil or gas development.

Commissioner Rodell replied no. She noted that the department was relying on rental companies to collect the tax on behalf of the state; the taxpayer was the individual or company renting the vehicle. She asserted that it was important to recognize the impositions that would be placed on companies to guarantee that the audit was being collected correctly.

[9:36:54 AM](#)

Co-Chair Stoltze asked for emails and notifications letters that had been sent to companies in 2003 and 2004 for the public record.

Commissioner Rodell agreed to provide the information.

CSSB 178(FIN) was HEARD and HELD in committee for further consideration.

[9:38:01 AM](#)

AT EASE

[9:40:03 AM](#)

RECONVENED

#sb169

CS FOR SENATE BILL NO. 169(FIN)

"An Act establishing in the Department of Health and Social Services a statewide immunization program and the State Vaccine Assessment Council; creating a vaccine assessment account; requiring a vaccine assessment from assessable entities and other program participants for statewide immunization purchases; repealing the temporary child and adult immunization program; and providing for an effective date."

[9:40:13 AM](#)

SENATOR CATHY GEISSEL, SPONSOR, spoke to the graphic, "SB 169 Vaccine Assessment Program" (copy on file). The graphic charted the various fund transfers that would occur as a result of the vaccine assessment program. She turned committee attention to another graphic, "SB 169 Statewide Immunization Program"(copy on file), which emphasized that the program was optional for all providers, with an additional provision to opt out of the program within the first 3 years. She said that one of the goals of the Alaska Healthcare Commission was to purchase healthcare services with public funds and the bill was a representation of that goal. She stated that homeless teens and young adults would benefit from the legislation. She added that community healthcare clinics in rural Alaska would also benefit from the bill.

[9:45:41 AM](#)

Senator Geissel discussed her response memo to Representative Wilson's question in the last hearing (copy on file):

Dear Finance Committee Members:

I was asked by Representative Tammy Wilson's aide how many Alaskans would be affected if SB 169 fails and received the below information from the Division of Public Health. The impact would be huge:

Without SB169 and once HB310 funds run out, providers will have to purchase vaccine for 50 percent of the children and 100 percent of the adults. That is estimated to be about 310,000 individuals of which 80,000 are children and 230,000 are adults. This is based on current population and immunization rates. Only the 50 percent of children covered by federal Vaccines for Children and a small number of high-risk children and adults covered with other state and federal funds will continue to receive state-supplied vaccine.

In terms of dollars, without SB169, the providers' share of vaccine spending will increase from about 50 percent currently to about 75 percent, or an extra \$12 million, increasing from \$23 million to \$35 million. This assumes immunization rates stay steady and that providers continue to purchase vaccine for the insured and uninsured.

Senator Geissel spoke to the cost of vaccinations. She stated that the measles, mumps, rubella (MMR) vaccination for children, under the Center for Disease Control (CDC) purchasing plan, costs \$20 per dose. She shared that individual providers purchasing the same dosage on the open market paid \$56 per dose. She said that one adult vaccine dose for pneumonia purchased through the CDC purchasing would be \$23; individual providers would pay \$68. She discussed the cost discrepancies for various vaccinations.

[9:49:39 AM](#)

Representative Wilson asked whether the current bill version required mandatory participation after 3 years. Senator Geissel replied that no one would be mandated to be part of the program.

Representative Wilson understood that private insurance companies would also have the ability to opt in, but that the state was exempt.

Senator Giessel replied requests for the program from insurance companies had led to the legislation.

[9:51:22 AM](#)

Representative Munoz asked if all providers would be charged the same rate per vaccine.

Senator Giessel replied yes.

[9:52:14 AM](#)

Representative Holmes discussed the 5 fiscal notes attached to the bill.

[9:55:07 AM](#)

JILL LEWIS, DEPUTY DIRECTOR, DIVISION OF PUBLIC HEALTH, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, stated that the fiscal notes netted to zero because for every dollar that was spent, there was a new dollar coming in of new assessment fees. She directed committee attention to the hand out, "SB 169 Vaccine Assessment Program." She recommended comparing the first two fiscal notes side-by-side. She said that the money would flow between the two notes and net to zero. She stated that the first note was for informational purposes only and likened to a deposit slip from the bank, the "checking account" being the fiscal note for epidemiology. She relayed that the \$4 million from note 2 would be subtracted under the fund source and would be moved into an account outside of the department's budget. She furthered that assessments would be collected in advance from the assessable entities and the money would be used to purchase additional vaccine.

[9:59:57 AM](#)

Representative Wilson surmised that there was no request being made for new revenue.

Ms. Lewis replied in the affirmative.

10:01:32 AM

Representative Wilson said that the other figures in the notes appeared in anticipation of the best mathematical estimates.

Ms. Lewis said that there was a lot of math involved in calculating and estimating the costs involved in the program. She stated that entities would phase in during the first 3 years and that some could opt out. She added that there could be providers that might want to opt in for vaccine that they would otherwise have to purchase on their own.

Representative Wilson asked whether the change could have negative impact on the department.

Ms. Lewis replied no. She acknowledged that federally funded entities had additional obstacles, which had been accounted for by allowing the 3 year phase in option.

Representative Holmes MOVED to REPORT HCS CSSB 169(HSS) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

HCS CSSB 169(HSS) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal note from Fund Transfers for the Department of Health and Social Services, one new fiscal note from the Department of Health and Social Services, one new indeterminate fiscal note from the Department of Health and Social Services, one previously published zero fiscal note: FN4 (CED), and one previously published indeterminate fiscal note: FN5 (ADM).

#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."

[10:03:57 AM](#)

MICHAEL PAWLOWSKI, DEPUTY COMMISSIONER, STRATEGIC FINANCE, DEPARTMENT OF REVENUE, introduced the PowerPoint presentation titled "Response to Question from Representative Edgmon" (copy on file). He discussed Slide 2, which was an example of the opportunities that existed for small-scale use of LNG:

"The CIRI Talkeetna Lodge is a 212 room Lodge operating the the tourism season. FNG provides LNG year round for heating, hot water and cooking. There

is 10,000 gallons of LNG storage on-site for uninterrupted supply of natural gas. The Lodge receives a delivery of LNG approximately every two weeks."

Mr. Pawlowski relayed that very rough estimates by AEA put the cost of equipment currently at \$1,000,000. He said that when discussing future deposits to the Affordable Energy Fund it should be noted that the fund is for all energy sources.

Mr. Pawlowski turned to Slide 3, "SB 138 Includes AEA energy planning." He noted that the important issue related to the affordable infrastructure and areas not directly on the pipeline route. Section 69 of SB 138 directs the AEA, in consultation with AGDC, AIDEA and DOR to prepare a plan for developing infrastructure to deliver affordable energy to areas of the state that are not expected to have direct access to a North Slope natural gas pipeline.

[10:08:15 AM](#)

Representative Edgmon hoped that there was substance behind the commitment to provide affordable energy to all parts of the Alaska, and not just the more convenient areas of the state. He wondered if there was a way to tie-in the language in the bill to the existing language pertaining to the energy policy in the uncodified state statutes.

[10:09:24 AM](#)

Mr. Pawlowski referred to Page 60, section 67 of the H version of the bill. He believed that the uncodified law existed as direction to the state, but a reference in the section to the context of that policy could appropriate.

[10:10:28 AM](#)

Representative Edgmon requested a statement regarding the offtake points exit points and expense.

[10:11:30 AM](#)

Mr. Pawlowski replied that the commitment of the offtake points in the HOA was to look for the benefits for Alaskans, with access to reliable and predicable supplies of energy. He said that the trick would be the

affordability of access as distance became a factor. He stated that it would need to be examined whether taking at the offtake would be the best option, or whether a localized energy solution would be a better option. He assured the committee that both options would be pursued as part of the development of the agreements. He said that the commitment to the issue was deep and that the section put the right tools in place to build on regional energy work already being done by AEA.

[10:12:30 AM](#)

JOE BALASH, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, added that the department had contributed to the work pertaining to the tap in points to the line. He said that pre-installing the takeoff points during the initial build would be cheaper. He relayed that the incremental costs associated with a tap was approximately \$1 million.

[10:13:37 AM](#)

Mr. Pawlowski interjected that in pervious gasline plans, the offtake had potentially been expensive because of the high natural gas liquids content in the proposed plan. He asserted that the current plan involved very clean LNG gas and did not require the expensive equipment necessary for the stripping of liquids.

Representative Guttenberg assumed that a takeoff point in Nikiski would have charges based upon the GTP, tariffs and distance sensitive rates. He asked about the Asian market; if the flow was backtracked to the middle of the pipeline, the rate would be relevant to the takeoff point, and not everything else downstream.

Mr. Pawlowski responded yes, and that the distinction was critical. He added that under the MOU, the state had already agreed to distance sensitive rates for the areas along the pipeline in three zones: the Nanana Zone, the Big Lake Zone, and the delivery to the LNG plant.

Representative Guttenberg asked how the Nanana Zone was defined.

Commissioner Balash replied that the zone included everything north of Nanana.

[10:17:39 AM](#)

Representative Wilson understood the benefits to the owners and TransCanada, but she expressed discomfort with the balance the energy issues in the interior and the bush. She wished to better understand why the project was a good deal for state residents.

Commissioner Balash replied that the transportation infrastructure would provide a relatively low-cost means of delivering the commodity either from the North Slope or Cook Inlet. He said at that point options would be examined and that the lowest cost option to get gas to the corridor would be selected.

Commissioner Balash referred to Slide 2 from the Black and Veatch presentation, "State Participation on AK LNG Project, April 15, 2014"(copy on file). The slide showed at a \$16 dollar commodity price in Asia the state's wellhead value would be approximately \$7/MMBtu. He said that taking the \$7 price, adding the treatment plant cost of \$2, adding the pipeline cost to the interior of \$1 would total \$10 to get gas to Fairbanks. He furthered that if natural gas was priced a \$6 in the Cook Inlet Basin, the backhaul rates, negotiated with TransCanada in the MOU, would mean the benefit of Cook Inlet pricing in Fairbanks without the transportation cost. He predicted that as the market demand in Cook Inlet grew, additional supplies would be proven, and additional opportunities for smaller producers would open up. He asserted that the same thing would occur on the North Slope, as long as a viable third party mechanism was maintained through the state's equity capacity in the pipeline, there would be companies and operators with small amounts of gas that would be looking to make in-state sales and could be willing to sell their gas for less than \$7. He said that the biggest distinction between the project and the TAPS scenario was that the states crude oil had to be refined in order to make it useful; natural gas and methane took very little refinement.

[10:23:03 AM](#)

Representative Wilson understood that all of the language was in the bill.

Commissioner Balash replied that it was not in the bill. He said that how transportation charges would be priced was in the MOU with TransCanada. He said that in 2015 there would

be a piece of legislation approving the Firm Transportation Services Agreement (FTSA) with the specific terms laid out.

Representative Wilson said she would prefer to see the terms before voting on the legislation.

Co-Chair Stoltze discussed housekeeping.

[10:24:58 AM](#)

Mr. Pawlowski stated that he appreciated the guidance about the technical amendments on the bill.

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

#

ADJOURNMENT

[10:26:03 AM](#)

The meeting was adjourned at 10:25 a.m.