

HOUSE FINANCE COMMITTEE
April 16, 2014
1:44 p.m.

[1:44:46 PM](#)

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:44 p.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

Daniel George, Staff, Representative Bill Stoltze; Senator Anna Fairclough, Sponsor; Kris Curtis, Legislative Auditor, Alaska Division of Legislative Audit; Michael Pawlowski, Deputy Commissioner, Strategic Finance, Department of Revenue; Janak Mayer, Partner, enalytica; Nikos Tsafos, Partner, enalytica; Jesse Logan, Staff, Senator Lesil McGuire; Sarah Lunkin, CEO, PT Public Policy, LLC; Genevieve Wojtusik, Staff, Senator Lesil McGuire.

PRESENT VIA TELECONFERENCE

Ron Long, Manager, City of Seward; Ted Leonard, Executive Director, Alaska Industrial Development and Export Authority.

SUMMARY

CSSB 129(FIN)
REAL ESTATE APPRAISERS

CSSB 129(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal impact note: FN2 (CED).

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 140(FIN)
AIDEA: ARCTIC DEVELOPMENT PROGRAM/FUND

CSSB 140(FIN) was HEARD and HELD in committee for further consideration.

CSSB 191(FIN)
GENERAL OBLIGATION BOND FUND TRANSFER

HCS CSSB 191(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN1 (REV).

CSSB 194(L&C)
TOURISM MARKETING BOARD

CSSB 194(L&C) was HEARD and HELD in committee for further consideration.

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Co-Chair Stoltze discussed the meeting agenda.

#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."

1:45:55 PM

Vice-Chair Neuman MOVED to ADOPT the proposed committee substitute for CSSB 191(FIN), Work Draft 28-LS1483\C (Wallace, 4/16/14).

Co-Chair Stoltze OBJECTED for discussion.

DANIEL GEORGE, STAFF, REPRESENTATIVE BILL STOLTZE, explained the change in the CS, which began on page 1, line 14 with the addition of new language:

If a temporary transfer has already been made from the general fund to the bond construction fund or account, additional transfers may be made, but the total amount of the outstanding transfers not returned to the general fund under (d) of this section may not exceed 25 percent of the amount authorized for the general obligation bonds without approval from the Legislative Budget and Audit Committee.

SENATOR ANNA FAIRCLOUGH, SPONSOR, was amenable to the changes in the CS. She appreciated the committee's work on the bill. She noted her intent to ensure that the legislature retained its oversight.

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, Work Draft 28-LS1483\C was ADOPTED.

Representative Costello highlighted the zero impact fiscal note from the Department of Revenue.

Vice-Chair Neuman congratulated Senator Fairclough on her recent engagement.

Vice-Chair Neuman MOVED to REPORT HCS CSSB 191(FIN) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

HCS CSSB 191(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN1 (REV).

#sb129

CS FOR SENATE BILL NO. 129(FIN)

"An Act extending the termination date of the Board of Certified Real Estate Appraisers; relating to real estate appraisers; and providing for an effective date."

[1:49:25 PM](#)

SENATOR ANNA FAIRCLOUGH, SPONSOR, spoke to the purpose of the bill. The legislation would extend the sunset date for the Board of Certified Real Estate Appraisers. She detailed that the federal government had outlined new requirements for the board; therefore, its length of time for reauthorization was shortened in order to ensure there was time to review the process for federal compliance.

KRIS CURTIS, LEGISLATIVE AUDITOR, ALASKA DIVISION OF LEGISLATIVE AUDIT, communicated that the division had conducted a sunset review of the Board of Certified Real Estate Appraisers. The division had concluded that the board was protecting the public's interest by effectively licensing and regulating the real estate appraisers. The audit recommended a four-year extension (half of the maximum allowable statutory extension) because the board's mandated responsibilities had been expanded by federal law. The audit included two recommendations for operational improvements, which were directed to the director of the Division of Corporations, Business and Professional Licensing. The first recommendation was for the division to improve its administrative support to the board, including addressing delays in investigations. The second recommendation was to continue efforts to improve the investigative case management system's integrity and confidentiality. She relayed that the board and department had both concurred with the recommendations.

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Co-Chair Stoltze CLOSED public testimony. He asked if there were any amendments.

Representative Costello discussed the previously published fiscal impact note from the Department of Commerce, Community and Economic Development. The note included an annual fiscal impact of \$7,400 in FY 15 through FY 20.

Vice-Chair Neuman MOVED to REPORT CSSB 129(FIN) out of committee with individual recommendations and the accompanying fiscal note.

CSSB 129(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal impact note: FN2 (CED).

1:53:26 PM

AT EASE

1:58:49 PM

RECONVENED

#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."

1:59:06 PM

MICHAEL PAWLOWSKI, DEPUTY COMMISSIONER, STRATEGIC FINANCE, DEPARTMENT OF REVENUE, continued to address questions on the legislation. He recapped that earlier in the day the administration had discussed the affordable energy aspects and the ability to move and look at infrastructure and to move benefits of the project across the state.

Representative Gara referred to a request for information about where Alaska ranked in terms of its potential government take on the project. He stated that Roger Marks [Legislative Consultant, Legislative Budget and Audit Committee] estimated the state's share at approximately 60 percent, which he deemed to be lower than other jurisdictions taking similar risks.

Mr. Pawlowski replied that the royalty study was available on the Department of Natural Resources website and provided a broad range of government takes across different types of projects. He noted that he would work to provide excerpts from the study. He relayed that the consulting firm Black and Veatch was updating the study to put the information on one page.

Representative Gara wondered if the information would be available prior to the amendment process. Mr. Pawlowski replied that the consultants were working on the information as fast as possible.

Representative Costello communicated that her primary concern about the current project was the state's relationship with TransCanada. She asked about all of the

opportunities the legislature would have the ability to alter its relationship with TransCanada.

Mr. Pawlowski pointed to page 8, Exhibit C of the Memorandum of Understanding (MOU) related to termination events (copy on file). The section described the rights that the state and TransCanada had to reevaluate the relationship and choose to terminate. The initial and pre-FEED [Front End Engineering and Design] stages were estimated to conclude around the end of 2015; at that point contracts with a longer duration would be ratified. He detailed that the state had the right at any time (provided that 90-day notice was given to TransCanada) to reevaluate and/or terminate the relationship prior to the ratification of the contract in 2015. He relayed that the firm transportation services agreement decision would be required to be brought to the legislature and be made public 90 days prior to the effective date; the MOU specified the date would be 90 days before the end of 2015. The legislature would have an opportunity to determine if it wanted to continue moving forward with its partner TransCanada.

Mr. Pawlowski communicated that after the contract had been approved, the FEED stage would be entered; during the FEED stage through to the final investment decision (FID), the legislature and the state would retain an ability to terminate the relationship with TransCanada for a couple of reasons. Including, if within 60 days from the date, one or more of the producers or the transporter withdraws from the project or at any time the shipper was unable to sign agreements to sell all of its royalty or tax gas on terms acceptable to the shipper. He relayed that the legislature would play a role in the FID (most likely through appropriation powers). The state would have another opportunity to reevaluate its relationship with TransCanada at the FID stage; however, during the FEED and FID stages there was a provision that would provide TransCanada an option to participate in an alternative similar project advanced by the state. The opportunity was based on the MOU terms (75 percent debt and 25 percent equity); however, the cost of debt and return on equity were open to negotiation based on conditions at the time. He summarized that there would be multiple occurrences when the state had the opportunity to weigh advancement with TransCanada; the legislature would make the next decision on the terms towards the end of 2015.

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Representative Costello asked whether the state's buyback option was always open or limited. Mr. Pawlowski replied that the buyback option was only applicable in the ratification of the firm transportation services agreement. The provision would be in effect from the end of 2015 forward.

Representative Costello referred to testimony from the Department of Transportation and Public Facilities. She had been surprised by the testimony related to the department's lack of awareness about logistical needs. She wondered whether the logistics would be provided to the state at a certain point or if the conversation would improve with time.

Mr. Pawlowski answered that the needs of the project broadly and specifically related to transportation were issues developed during the pre-FEED period. The phase moved from a conceptual idea to a conceptual design. He elaborated that the size of the pipe was developed during the time period; all of the decisions impacted the boom and trench sizes in addition to other logistics. The development of due diligence conducted during the pre-FEED time period, which was also important for the Federal Energy Regulatory Commission (FERC) environmental impact statement (EIS) requirements related to social impacts. He noted that the department would provide the list of resource reports to the committee. He summarized that during the next project stage the detailed work would begin and the items would be developed in order for the involved parties to decide whether it was desirable to move forward.

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Co-Chair Stoltze handed the gavel to Vice-Chair Neuman.

Mr. Pawlowski followed up on his response to Representative Costello. He added that Black and Veatch was currently updating the government take to include implied state expenditures for infrastructure; the information would be provided to the committee.

Vice-Chair Neuman referred to a 5 percent return on equity (ROE) related to SB 21 [oil tax legislation that passed in

2013]. He discussed a 5 percent per barrel of oil exclusion on ROE in the Black and Veatch proposal.

Mr. Pawlowski asked for verification that Vice-Chair Neuman was speaking about the Black and Veatch fiscal analysis.

Vice-Chair Neuman replied in the affirmative.

Mr. Pawlowski explained that under SB 21 there was a credit for the production of each barrel of oil. One of the items Black and Veatch had looked at was a similar credit for each million British thermal unit (btu) or million cubic feet (mcf) of gas produced. The goal had been to determine a modification that would create the same system. The \$5.00 had been divided by the energy equivalent, which created a fixed credit per unit of gas. He believed it had been \$5.00 divided by 6 per mcf.

Vice-Chair Neuman asked for detail on off ramps [i.e. termination options].

Mr. Pawlowski pointed to page 8 of Exhibit C of the MOU. He explained that the section was broken up into circumstances under which the shipper could terminate, the transporters could terminate, and cases where either the shipper or transporter could terminate. He addressed the right to terminate prior to the FEED stage; notice could be given by the shipper (State of Alaska) any time provided that a 90-day notice was given to the transporter (TransCanada). From the beginning of FEED through FID the shipper could terminate within 60 days from the date one or more North Slope producers or transporter withdrew from the Alaska LNG Project. Secondly, the shipper could terminate at any time if it was unable to sign agreements to sell all of its royalty or tax gas on terms acceptable to the shipper. Additionally, the shipper could choose to terminate for any reason at FID.

Mr. Pawlowski addressed that the transporter could choose to terminate if the legislature failed to provide statutory authority to the Department of Natural Resources (DNR) or the Department of Revenue (DOR) to enter into the precedent agreement by June 30, 2014. He referred to additional reasons listed in the MOU (Exhibit C):

- Shipper fails to execute the PA within the specified time.

- Shipper fails to execute the FTSA by December 31, 2015.
- Shipper fails to maintain the standard of Creditworthiness Requirements. Transporter shall provide notice to Shipper of a failure to meet such standards, and Shipper shall have a reasonable period to cure.
- At FID, if all Transporter corporate/Board approvals have not been obtained.
- Within 3 months from FID, if debt financing has not been secured on terms and conditions satisfactory to Transporter in its sole discretion.

Mr. Pawlowski noted that the term sheet was a conceptual document. The precedent agreement would begin with the concepts and would add detail. The firm transportation services agreement would add a more thorough level of detail.

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Representative Guttenberg referred to DOR's earlier testimony that Black and Veatch was working on a new report on government take. He believed it had been in the context of the state's obligation to expand and build infrastructure. He was concerned about the issue because of a report from the Department of Transportation and Public Facilities. He wondered if there were things like deductions for existing North Slope infrastructure, expansion, and how it would affect the existing oil tax rate.

Mr. Pawlowski responded that the deductibility of lease expenditures had been included in every model developed on the project since the beginning. He noted that the deductions were often listed in Black and Veatch models as a separate part of the negative calculation for the early years. He clarified that the prior evening the department had received a request by the committee chair's office for an update on the government take. Also requested was that the state choose some numbers that it would be spending on infrastructure. He believed it had been a specific request to assume \$1 billion or another amount was spent by the state on infrastructure. He explained that providing the information required the models to be rerun; the models were not based on anything other than a guess. He relayed

that the royalty report included government take information.

Representative Guttenberg asked if there was one scenario being run that included \$1 billion as the infrastructure needs. Mr. Pawlowski replied that the scenarios would include \$1 billion, \$2 billion, and \$500 million. He provided a disclaimer that the numbers were arbitrary.

Representative Gara noted that a contract under former Governor Murkowski had fallen apart when the legislature had realized the governor could move forward without legislative approval. He asked for the meaning of FID.

Mr. Pawlowski replied that FID stood for Final Investment Decision.

Representative Gara referred to department testimony that the state's authority would be determined [at FID] when the governor came forward with a contract and the legislature could decide whether appropriate the money. He asked if his understanding was accurate.

Mr. Pawlowski replied that he was hesitant to contemplate what would be necessary for the FID. His reference to appropriations had been used based on his assumption that appropriations would be necessary given the scale of the FID and construction step. He communicated that any contract with a duration exceeding five years would require a legislative vote. He did not currently know how many contracts would be necessary for the FID to take place.

Representative Gara wanted to ensure that it was in writing that at FID the legislature had the right to say no to a contract. He did not want the legislature to be in a situation where it was held liable for damages if it chose not to appropriate money.

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Mr. Pawlowski answered that the actual body of work that would go into the FID was not currently known. To his knowledge there was nothing specific in the legislation that drove one single decision. The department had worked to break the concept apart from previous efforts, that one contractor or one execution would actually lead to a project. There were multiple contracts and agreements. He

detailed that part of the path was designing what would occur in the pre-FEED stage. As the different work needed was identified, it would become clearer what would need to be done in the FEED and FID stages. There were many potential decision points leading up to FID, but they were unknown at present.

Co-Chair Austerman noted that enalytica was available for questions.

Representative Wilson wondered how to determine the project was the best deal for the state's residents. She wondered why the consultants believed the current project was the best way to go or if there were other options it should consider.

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JANAK MAYER, PARTNER, ENALYTICA, asked for clarification on the question. He wondered if the question was primarily focused on potential future gas prices for constituents along the pipeline route.

Representative Wilson agreed. She believed the state would ensure the constituents were taken care of. She relayed that the Fairbanks area was primarily on heating oil. She wondered how gas would be different from heating oil for Fairbanks and other areas.

NIKOS TSAFOS, PARTNER, ENALYTICA, responded with advice on thinking about the issue at the 40,000-foot level. He highlighted that the state would sell gas in Asia. Once the process began the state would realize that consumers were using gas or fuel oil. He spoke to the competitiveness of Alaska's gas in the Asian market; it would need to be less expensive than fuel oil. When oil prices had collapsed in 2008 and 2009 there had been a short period of time where oil was cheaper than gas. He stated that during the time the Korea Electric Power Corporation had switched from LNG to oil. He reasoned that if gas was taken earlier it would be able to compete with fuel oil if the delivery price of gas had to be lower than the fuel oil in Asia. He could not think of many cases worldwide where gas traded at a continuous premium to fuel oil. He detailed that in most locations gas gained market share by being more competitive than fuel oil, which was one reason gas prices in Asia and Europe were linked to fuel oil. Distribution price was not

yet known. He characterized his response as the highest level observation that could provide any comfort that the energy delivered to Alaskans would be more competitive than what they currently paid (especially locations that relied heavily on oil-based energy).

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Representative Wilson wondered if it came down to contracts. She asked how the state would make sure it would have sufficient gas for instate use. She remarked on meeting demand and making sure Alaska was not only receiving a leftover amount of gas.

Mr. Tsafos replied that the issue could be thought of in two different ways. He remarked that the concern was not unique to Alaska; any sovereign developing LNG considered to obtain competitive energy. He believed there were two parts that would require management. First, when using gas for heating it was difficult to know how much would be used because it depended on the weather. He stated that the limitation was well understood and would require working through contracts. He explained that sales contracts typically had upward or downward quantity provisions. For example, if 4 million tons were sold there was usually flexibility to go 10 percent higher or lower. Additionally, there was a planned out monthly delivery schedule. He suspected that in Alaska it would be assumed that the state needed more gas in the winter; therefore, it would deliver less during that period. He noted that it would also depend on the state's ability to produce more. He communicated that the state could produce at a flat amount and alter the distribution between domestic sales and exports or it could produce more when more was needed and vice versa. Second, the broader concern was what would happen if the state underestimated its need. He relayed that there were a number of ways to manage the issue including studying what the number would be. He referred to prior testimony that AGDC would work to determine the most reliable number possible. He discussed the importance of understanding what the contingencies and spare capacities of infrastructure would be. He referred to committee discussions on surplus infrastructure and spare capacity in order to enable other producers to meet the demand. Additionally, it was important to have a contractual access regime that would allow third-parties to supply the gas; the absence of a well laid plan could be problematic. He stated that the

optimal solution was not yet known. Sovereigns that failed to do the proper due diligence had seen exports decline because they had diverted gas to the domestic market; some had paid penalties as a result. He detailed that there were ways to mitigate the problem such as choosing to commit 80 to 90 percent of sales to long-term contracts in order to provide more flexibility and avoid penalties. He noted that the state may want to consider marketing its gas in different ways than producers. Perhaps the state would want to keep more of its gas for the open market in order to retain gas for the "what if's." The commercial and technical aspects would be worked through during the pre-FEED and FEED stages. He reiterated that the concerns were fairly common facing all LNG producers. He thought the best thing to do was to look at how various concerns were addressed in each stage of the agreements.

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Representative Wilson believed the state was looking for answers that were not yet known. She noted that the answers were desired before the start of the project, but the legislature was being told the project needed to start before the answers could be obtained. She remarked that AGDC and the administration would direct the project on the state's behalf. Currently TransCanada was the state's partner and the three producers would each have 25 percent. She believed most of the gas would be taken in-kind versus in-value. She believed the tax structure was being set somewhat. She remarked on the pre-FEED and FEED stages. She wondered if she was missing any pieces. She understood that a contract would not be set at present.

Mr. Mayer answered that there were a number of key items occurring at present. He discussed that the state was acknowledging a vision that addressed whether all requirements could be met for taking in-kind and having an equity share. The legislature was giving the administration the authority to negotiate the key points. He remarked that the basic structure of a state gas share and direct participation in the project provided significant flexibility for the state to solve the problem of obtaining affordable gas prices in the state. The options would be better understood as the process evolved. He relayed that the state could decide to solve the problem by using its own share of the gas to provide for the domestic demand; the price would have an impact on the economics received by

the state. The state could decide that it was a uniform obligation across all project participants; if the other partners believed the terms were not in their best interest there may be negotiations. There were a wide range of items that could be considered including meeting in-state demand not primarily with gas from the project but from other sources such as Cook Inlet or from other producers on the North Slope (gas that was essentially stranded at present). There were many different mechanisms the state could use that would determine the ultimate delivery price.

Representative Wilson asked what the state would be required to approve next and when. Mr. Tsafos deferred the question to the administration.

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Representative Wilson wondered if the consultants believed the state would need to be able to meet the deadline for the Asian market needs. There were other competitors working to get the market as well. She wondered if 2022 was the "drop dead" deadline.

Mr. Tsafos cautioned that it was dangerous to speak about closing windows of opportunity. He stated that because of the time the project would take, the farther out the project went the better it looked because there were fewer projects planned in the future. He discussed that currently entities selling gas were aiming for delivery dates in 2018 through 2021. Alaska was looking at a later market that was not as saturated by competition. He acknowledged that as time went by, later future dates would become saturated as well. He stated that trying to capture a specific window was the wrong way to move forward. He believed the primary reason to keep moving forward was due to the length of time the process took. He noted that everything was interrelated and one piece could not be moved without the other. It was not possible to talk about marketing until conducting the financing study; likewise it was not possible to know how much gas there would be before conducting the engineering study. Although the state would get to FID that included financial, marketing, technical studies, the items would become more final throughout the process. He concluded that it was not possible to wait for everything to be done before moving to the subsequent step because everything would become obsolete if too much time passed.

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Co-Chair Austerman believed that what the legislature approved in the current session would mean a two-year timeframe on most contracts. He surmised that if contracts were not signed within the two years they would become null and void; the contracts would be required to come before the legislature in order to move to the next step. Mr. Mayer answered in the affirmative. The contracts the legislature was empowering the administration to negotiate without coming back before the legislature would govern the pre-FEED phase. Contracts governing the project beyond pre-FEED would come back to the legislature for approval (especially large contracts such as the joint-venture agreements and firm transportation services agreements).

Mr. Tsafos communicated that the fiscal notes only covered the pre-feasibility study. The FEED stage would cost hundreds of millions of dollars.

Co-Chair Austerman surmised that by the time the state got to the FEED stage there would be a special session in late 2015 to discuss the issue. Mr. Tsafos replied that it sounded reasonable, but he deferred the question to the administration.

Representative Gara was interested in the ability to get extra gas in the pipeline. He discussed expanding by compression up to 1 billion cubic feet; expansion beyond the amount would become difficult without help from other parties. He referred to a provision in the HOA that represented risk for the state, but reward for the other companies. He elaborated that if the state wanted to expand the pipeline, as long as it and a new shipper came in and expanded, the state had to share the benefits with Exxon, Conoco, and BP. Once the expansion got the state back to the cost of the initial shipping rate the state would be required to bare all of the cost. He remarked that if the cost of expansion increased the tariff up to the original rate, the state and shipper would be required to pay the cost. He wondered why the provision was fair.

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Mr. Mayer replied that there were two important items to distinguish pertaining to Representative Gara's question. The first item pertained to the parties involved in an

expansion and who bore the direct capital cost. The second item related to the total per unit capital costs for the entire pipeline, whether the costs were higher or lower than previously, and whether there was a benefit or cost to the expansion in terms of the implied tariff. He stated that among the parties to the HOA there were active explorers who may have additional gas in the future that they would like to see an expansion for (that the state may or may not want to participate in). He noted that the agreement allowed a party that wanted to expand to do so unilaterally without being held back by the other parties. He mentioned that under the HOA any benefits of an expansion would go to all parties; however, when costs rose they were borne by the parties executing the expansion. He agreed that greater symmetry from the state's perspective was preferable. However, he noted that reasonable people could disagree on the subject. He had heard testimony that the tradeoff was that the initial investment enabled the expansion; therefore, the initial investors should benefit in some way. However, when looking solely at the state's interest, it would be reasonable to say that only expanding parties bore costs and benefits or that if benefits were shared that costs would also be shared. He stated that in negotiations if one party was adamant about unilateral expansion, sharing the costs may be given up.

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Mr. Tsafos referred to discussions about the importance of initial design and how to build a pipeline that was as expandable as possible as cheaply as possible. He reasoned that if the state wanted its partners, which would be bearing 75 percent of the cost, to put down 75 percent on a slightly larger or more expandable pipeline, one way to encourage the partners towards the option would be to provide them with a benefit. He noted that the tradeoff could be important.

Representative Gara believed the state had the most interest in bringing in new parties. He opined that the producers did not care about the ability to bring in new parties. He stressed that the state cared how much more of the North Slope was developed. He hoped the state would be actively seeking new partners; however, he reasoned the partners would not develop unless they could get their gas in the pipeline. He commented on the state giving producers

the benefit of reduced shipping rates if there was an expansion.

Co-Chair Austerman asked Representative Gara to avoid making statements about how producers would act in response to certain things.

Representative Gara agreed. He wondered why it would not be fair for producers to share in costs. He asked about the fairness of allowing the state to bring the cost back up to the original rate in order to expand.

Mr. Mayer answered in terms of the implied pipeline tariff, the arrangement seemed to be a fair and equitable. He could not say whether the arrangement would ensure the state with the right of unilateral expansion that was provided in the current contract.

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Representative Guttenberg wondered if the consultants could answer a question related to the midterm service agreement in the MOU, Exhibit C. Mr. Mayer replied that he would try to answer the question.

Representative Guttenberg looked at the document and observed that TransCanada would have the ability to write off its property taxes against the capital expenditures, which was 100 percent recovered through tolls. He surmised that Anchorage and Fairbanks would charge property taxes and they would charge the taxes to the state. He observed that the money moved in a circle.

Mr. Mayer answered that there were a series of costs incurred in the development of a project. The costs with allowances for the return on debt and equity would be recovered by the project builder over the lifespan of the project. The costs included the upfront capital, maintenance, operating, and those associated with taxes such as federal, state, and property taxes etc.; the costs were all built into the model determining the tariff.

Representative Guttenberg observed that it was money moving in a circle.

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Co-Chair Austerman asked for verification that the consultants were under contract with the Legislative Affairs Agency. Mr. Mayer replied in the affirmative (specifically under the Legislative Budget and Audit Committee).

Co-Chair Austerman asked when the contract expired. Mr. Mayer replied that it expired on January 31 of the following year.

Co-Chair Austerman asked for verification that the consultants would be available over the upcoming interim. Mr. Mayer agreed.

Co-Chair Austerman relayed that amendments on the bill were due at 4:00 p.m. that day.

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

[2:58:07 PM](#)

AT EASE

[3:04:49 PM](#)

RECONVENED

#sb140

CS FOR SENATE BILL NO. 140(FIN)

"An Act creating the Arctic infrastructure development program and fund in the Alaska Industrial Development and Export Authority; and relating to dividends from the Alaska Industrial Development and Export Authority."

[3:04:54 PM](#)

Co-Chair Stoltze noted the intent to hear an explanation of the bill, brief questions, and public testimony.

JESSEE LOGAN, STAFF, SENATOR LESIL MCGUIRE, addressed the legislation. The bill would create an Arctic Infrastructure Development Fund within the Alaska Industrial Development and Export Authority (AIDEA) and addressed one of the principle elements in the Alaska Arctic Policy Commission's (AAPC) legislative package. He detailed that the AAPC had been created to prepare the Arctic policy and

implementation plan for the state for the legislature's consideration. The bill would attract private investment to pair with public investment in Alaska's infrastructure in the Arctic. Although AIDEA currently had the authority to invest in many of the areas, it had no specific programs directed to attract private investment. There were specific limitations to the package financing. He asked for the committee's preference on how to proceed.

Co-Chair Stoltze asked for a brief description of the goals and aspirations of the bill.

Mr. Logan addressed the sectional analysis. Sections 1 through 8 were boiler plate and put the Arctic Infrastructure Development Fund in line with other funds within AIDEA (e.g. the revolving fund and the Sustainable Energy Transmission and Supply Development Fund (SETS)). Additionally, the sections described net income, ways to generate incentive packages within the funds, and what the funds consist of. He spoke to the limitations on financing. For land-based infrastructure AIDEA would be authorized to give loans for one-third of the capital cost or loan guarantees up to \$20 million. There was a project life of up to 40 years; AIDEA was also authorized to provide securities for bond guarantees. Page 7, lines 9 through 15 included a fisheries provision, which was limited to loan guarantees only (no direct loans) because the Alaska banks were currently very active in the sector; the sponsor did not want to create undo competition. The loan guarantees had a floor of \$7 million to ensure that it did not conflict or create competition with other state or federal programs. Additionally, the loan guarantee could not exceed more than one-third of the project's capital costs. The eligibility for the loan guarantees would be the purchase or repair of vessels used in federally managed fisheries or the purchase of quota shares or individual quota shares in federally managed Arctic fisheries.

Co-Chair Stoltze asked for a description of the fisheries in the Arctic. Mr. Logan replied that the fisheries were primarily cod and pollock fisheries. The bill looked primarily at Bering Sea fisheries that included mostly large fisher/processor trolls. He relayed that most of the fishing entities were located outside of Alaska. He explained that because AIDEA was forbidden to operate outside of Alaska, any fishing entity taking advantage of the financing opportunity would be required to relocate to

Alaska. The purpose of the provision was to repatriate some of the quotas and vessels to the state.

Co-Chair Stoltze asked how large the boats were. Mr. Logan did not know.

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Mr. Logan replied that the fund did not specifically choose winners or losers or look for specific projects; it would wait for private entities to seek out the funding. He did not know who would be seeking the funds.

Co-Chair Stoltze wondered about the vessel size and asked if they would be trawlers or draggers. Mr. Logan believed the vessels would be trawlers and processors. He relayed that Sarah Lunkin with PT Capital was available to answer detailed fishery provision questions.

Co-Chair Stoltze asked for verification that PT Capital was a private entity. Mr. Logan replied in the affirmative.

Representative Edgmon took exception to use of the word Arctic because technically it was the Bering Sea. He noted that the federal definition of the Arctic extended down into the upper Bering Sea. He asserted that there were currently no fisheries in the Arctic and may not be for the next 50 years.

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Representative Costello asked for verification that outside companies would be able to benefit from the bill's fisheries provision. Mr. Logan replied in the affirmative. He added that the asset taking advantage of the funds or loaned against would be required to remain in Alaska.

Representative Costello asked if the asset could also be repatriated. Mr. Logan answered in the affirmative.

Representative Costello noted that geographically Alaska was an Arctic nation. However, the infrastructure fund

would only benefit projects in one region of the state. She wondered why the fund should not apply to the entire state.

Mr. Logan pointed to page 8, lines 4 through 7 that defined the state's geographical boundary of the Arctic. He pointed to a map included in members' packets that had been taken from the federal Arctic Region Policy Act of 1990 (copy on file). The map included all areas north of the Arctic Circle to the north and west of the Yukon boundary; it also included the Bering Sea. He referred to the definition of Arctic development on page 7 of the bill, which included the construction, improvement, rehabilitation, or expansion of a facility in the Arctic to aid in development or meet emergency response or anywhere in the state if the construction, improvement, rehabilitation, or expansion supported the further development of a facility in the Arctic.

Representative Costello asked for the location in the bill. Mr. Logan pointed to page 8, lines 8 through 15 that included the Arctic infrastructure development definition. In response to Representative Edgmon's comment, he agreed that the bill pertained mostly to the Bering Sea; however, because the bill used the definition of the Arctic it also used the language "federal fisheries in the Arctic." He agreed that there were no fisheries located north of the Arctic Circle; there was a moratorium on any fisheries in the location for the foreseeable future.

Representative Costello surmised that there would be a hurdle that would need to be overcome in lines 13 through 15. She wondered if it would be a substantial hurdle or one that could easily be overcome.

Mr. Logan answered that it would depend on the individual project. The purpose of the bill was to create incentives for infrastructure in the state's least developed areas. He elaborated that if development in other areas would further the development in the state's least developed areas (i.e. the Arctic) they would be eligible. He provided the deep-water draft port in the Arctic as an example. The Army Corps of Engineers had identified Port Clarence as a likely target. He expounded that for the project to be built over the course of several years, staging grounds in other ports would be necessary due to the limited amount of shipping available for the area. Other ports may include Dutch Harbor, Seward, or Ketchikan. He stated that if storage

capacity was increased in the areas to provide for staging they would be eligible for the funds.

Representative Costello asked how the dividend aspect worked in the bill. Mr. Logan referred to page 2, lines 14 through 19. The dividends were the same as those set up from the revolving and SETS funds. He explained that between 25 and 50 percent of money the fund earned through loan proceeds would be returned to the general fund annually. For example, in the current year AIDEA's dividends provided approximately \$20.5 million to the general fund.

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Co-Chair Stoltze asked if the SETS fund was a model for the bill's fund. Mr. Logan answered in the affirmative.

Co-Chair Stoltze wondered if the fund would be drained in two years. Mr. Logan replied that the bill did not seek capitalization at present; therefore, there was nothing to drain.

Co-Chair Austerman referenced the building of ports. He stated that fisheries was only a portion of the bill. He spoke to the original intent of the bill to develop areas that were not developed in the Arctic.

Representative Wilson asked for verification that one of the projects would not qualify under AIDEA's current structure. Mr. Logan replied that AIDEA could invest in infrastructure in most of the areas contained in the bill; however, there was no existing provision to specifically attract outside investment. The loan limitations in the bill were a signal to outside investors that the state would help provide capital at a slightly reduced rate if investment was brought to Alaska.

Representative Wilson wondered how the commission was connected and if AIDEA would look for private investors. Mr. Logan replied that the commission was not connected to AIDEA in any way. He assumed AIDEA could market the fund if it chose to do so, but that was not the sponsor's intention. The intention was to provide AIDEA with another tool and to allow companies to submit proposals.

Representative Wilson thought most of the items in the bill (with the exception of fisheries provisions) could currently occur through AIDEA. She wondered about the purpose of the bill. She remarked that it made sense for AIDEA to look for businesses to bring back to Alaska.

Mr. Logan could not speak to AIDEA's marketing ability. He explained that the bill created an incentive. Currently, AIDEA's funds were not designed to be limited to certain portions of the capital investment or the overall costs (with the exception of the SETS fund). Without legislative approval AIDEA could not issue a loan for more than one-third of the capital cost; however, the loan for one-third of the capital cost could be significantly below market value, which would be a trigger to investors. He did not know whether AIDEA would actively seek the investors.

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Representative Costello remarked on Mr. Logan's testimony that there was no connection between AIDEA and the Arctic Policy Commission. She wondered whether the commissioner of the Department of Commerce, Community and Economic Development (DCCED) sat on both boards.

Mr. Logan replied that AIDEA had its own board; in statute the participants were referred to as members, but in practice it was a board of directors.

Representative Costello asked whether the commissioner of DCCED sat on the board. Mr. Logan believed so.

Co-Chair Stoltze replied in the affirmative.

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RON LONG, MANAGER, CITY OF SEWARD (via teleconference), spoke in support of the legislation. He highlighted his top five reasons for supporting the bill. First, the legislation did not ask for capitalization and used AIDEA's authority to guarantee loans and transfer between funds. He stated that the Alaska Arctic Policy Commission identified that needs and opportunities in the Arctic would generate billions in private capital that would go to the region. Second, the bill would allow AIDEA to give Alaska businesses better-than-market rates to move the money through the state's resources (e.g. oil and gas, response,

search and rescue, tourism, fisheries, and economic sectors). He believed the definition of Arctic infrastructure recognized that ports outside the geographic arctic would play a critical logistics and support role in developing the Arctic. Third, the bill made Alaskan ports more competitive than outside ports; it would take several Alaska ports to get everything accomplished. Fourth, the fisheries component created an economic reason for the 90 percent of the federally managed Bering Sea fisheries currently monetized out-of-state to home port in Alaska, adding to the 10 percent currently allocated to the CDQ [Community Development Quota] programs. Fifth, he believed the federal government had done little to advance Alaska's goals in the Arctic; however, the bill would enable Alaska to make the U.S. a participant rather than an observer.

Co-Chair Stoltze referred to a resolution on by-catch. He spoke to concern about bringing in by-catch with a conflicting goal of bringing more by-catch in for subsidizing. Mr. Long replied that the bill did not add a new quota to fully allocated fisheries. He surmised that the bill may change some of the quota ownership from non-Alaskans to Alaskans.

Co-Chair Stoltze asked if it was okay for Alaskans to by-catch Chinooks. Mr. Long answered in the negative.

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SARAH LUNKIN, CEO, PT PUBLIC POLICY, LLC, shared information about the company. She explained that the company was the only private equity firm headquartered in Alaska that was focused exclusively on deploying capital in the Arctic. The company expected to deploy approximately 80 percent of the total money raised in Alaska; the other 20 percent would be deployed in Iceland, Greenland, and Canada.

Co-Chair Stoltze appreciated the information.

Ms. Lunkin thanked the sponsors for their work on the bill. She shared that PT was currently in the midst of speaking with global investors about deploying significant capital in Arctic Alaska. She planned to speak primarily on the bill's fisheries provision.

Co-Chair Stoltze asked for information about other provisions as well.

Ms. Lunkin clarified that the fisheries provision was focused on AIDEA financing federally managed industrial fisheries in the Bering Sea. The Alaska fishing industry was the largest employer in Alaska and was the third largest industry in the state; nearly 60,000 Alaskans were employed in commercial fishing and seafood processing. She stated that an additional 11,000 jobs in the state were created by support services industries. She relayed that most additional jobs created by Alaska's fisheries were located outside of Alaska. She stated that the company saw the provision as bringing some of the outside fisheries jobs back to Alaska. She detailed that jobs would be brought back in-state if AIDEA had the ability to guarantee bank loans for quota and or vessels used in the Bering Sea for fisheries including pollock, crab, and cod. The fisheries provision also provided AIDEA loans for shore-based plants, facilities, and equipment within the State of Alaska that were used in support of the Bering Sea fishery. The company believed the bill would increase economic development, infrastructure, opportunities, and keep jobs and profits in-state.

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Representative Wilson asked what new authority the bill would provide to AIDEA.

TED LEONARD, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (via teleconference), answered that the bill would establish a new fund that would allow AIDEA to move forward on Arctic projects assisted by the legislature. He communicated that AIDEA had the ability to finance the projects through its revolving fund, but there were side bars for a sample of loan participation that allowed the agency to provide investment at its cost of capital. He noted that development projects through the agency's development program were based on its cost of capital. The different fund would allow the agency to assist the legislature with projects that it wanted to fund and allowed the legislature to set the type of cost of capital for the project; it also set limits on investment. Additionally, the bill would allow the legislature to increase the investment amount through legislation. He provided the Interior energy project funded by the SETS

program as an example. Under the SETS program the legislature had instructed AIDEA to invest up to \$125 million in low-cost loans at a rate of no more than 3 percent and had provided a capital appropriation to use in combination with the loans. He elaborated that the fund would allow the same type of flexibility for the legislature to use AIDEA as a tool in financing projects that it wanted to move forward. Finally, the bill set up a different fund; therefore, it would not impact the bond rating of the AIDEA revolving fund and funding of other projects.

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Representative Edgmon spoke in support of the bill that he believed was forward looking. He believed the bill dealt with an issue that was not presently on the radar of the mainstream public. He stated that things were happening quickly associated to the potential opening of the Arctic and issues pertaining to the Arctic Policy Commission. He viewed the bill as providing similar building blocks as those that had led the legislature to the current gas legislation. He opined that the opening of the Arctic would mean bigger things for Alaska. He noted that the fund focused on fisheries.

Co-Chair Stoltze made a remark about the state's commercial fisheries.

CSSB 140(FIN) was HEARD and HELD in committee for further consideration.

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CS FOR SENATE BILL NO. 194(FIN)

"An Act creating the Alaska Tourism Marketing Board; and relating to tourism marketing."

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Co-Chair Stoltze spoke to the intent of the bill hearing.

GENEVIEVE WOJTUSIK, STAFF, SENATOR LESIL MCGUIRE, discussed the bill. The bill would create the Alaska Tourism Marketing Board within the Department of Commerce, Community and Economic Development (DCCED). There were 21 members on the board; one member was appointed by the Senate, one was appointed by the House, and one was appointed by the DCCED commissioner. The remaining 18 were members of the Alaska Travel Industry Association (ATIA) representing Southeast, Southcentral, Southwest, Interior, and Far North. The regions were designated by the Alaska State Travel Planner. She detailed that the categories involved in ATIA were accommodations, activities and attractions, transportation, cruise travel, tour operators, and destination management organizations such as the Anchorage Convention and Visitors Bureau and the JCB. The bill would require the department and the board to work together to plan and execute a destination tourism marketing plan for Alaska. The public members of the board served at no cost to the state. The bill would sunset in 2018. She added that the bill did not change how tourism marketing was currently funded or how expenditures were made by the department; it would formalize the board, recognizing it as an important part of the process in the development of a marketing plan for the state. She communicated that having significant tourism marketing experience and knowledge from the private sector at the table would be very beneficial to the state.

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Co-Chair Stoltze asked about the history and why the legislation proposed to place the board under DCCED. Ms. Wojtusik replied that DCCED was supportive of housing the board.

Co-Chair Stoltze noted that the board had been through different iterations. Ms. Wojtusik agreed.

Co-Chair Stoltze CLOSED public testimony with the intent to reopen it if needed. He assumed that the majority of potential parties wishing to testify would be advocates of the legislation.

CSSB 194(L&C) was HEARD and HELD in committee for further consideration.

Co-Chair Stoltze discussed the evening meeting.

Representative Gara relayed that the administration had expressed concern over two of the minority amendments [pertaining to SB 138]. Subsequently the amendments had been submitted for rewording by Legislative Legal Services. He noted that the concern was over rolled-in rates. He did not want to increase anyone's cost for gas if the state did not receive tax for the gas.

Co-Chair Stoltze replied that the amendments would be considered timely.

Representative Holmes expressed a similar concern to Representative Gara's over an amendment she was working on.

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ADJOURNMENT

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The meeting was adjourned at 3:49 p.m.