

HOUSE FINANCE COMMITTEE

April 17, 2014

9:06 p.m.

[9:06:57 PM](#)

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:06 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

Senator Peter Micciche; Michael Pawlowski, Deputy Commissioner, Strategic Finance, Department of Revenue; Joe Balash, Commissioner, the Department of Natural Resources; Susan Pollard, Oil, Gas, and Mining Section, Department of Law; Genevieve Wojtusik, Staff, Senator Lesil McGuire; Roberta Graham, Assistant Commissioner, Department of Commerce, Community and Economic Development; Bill Peddler, Alaska Tourism Association.

PRESENT VIA TELECONFERENCE

Kathleen Martin, Self, Cooper Landing; Ed Martin, self, Cooper Landing; Ed Sniffen, Department of Law, Anchorage; Al Nagel, Department of Labor and Workforce Development, Anchorage.

SUMMARY

SB 74 UNIVERSITY OF ALASKA BUILDING FUND

SB 74 was SCHEDULED but not HEARD.

CSSB 138(FIN) am

GAS PIPELINE; AGDC; OIL & GAS PROD. TAX

HCSCSSB 138(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal note from the Department of Commerce, Community and Economic Development, one new fiscal note from the Department of Transportation and Public Facilities, one new fiscal note from the House Finance Committee, two new fiscal notes from the Department of Revenue, one new fiscal note from the Department of Natural Resources, and one previously published fiscal note: FN16 (CED).

SB 193 CONTRACTORS: BONDS; LICENSING

SB 193 was HEARD and HELD in committee for further consideration.

CSSB 194 (FIN)

TOURISM MARKETING BOARD

HCS CSSB 194(L&C) was REPORTED out of committee with a "do pass" recommendation and with one new zero fiscal note from the Department of Commerce, Community and Economic Development and one previously published fiscal note: FN2 (LEG).

CSSB 195(FIN)

POSTSECONDARY EDUCATION LOANS/GRANTS

CSSB 195(FIN) was SCHEDULED but not HEARD.

SJR 23 CONST. AM: STUDENT LOAN DEBT

SJR 23 was SCHEDULED but not HEARD.

[Note: The following meeting was broken up into two separate documents. For the conclusion of the meeting see April 18, 2014 12:00 a.m. minutes.]

#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."

[9:07:03 PM](#)

^AMENDMENTS

[9:08:04 PM](#)

Co-Chair Stoltze MOVED to ADOPT Amendment 1, 28-GS2806\H.47, Bullock, 4/17/14 by Co-Chair Stoltze, Co-Chair Austerman, and Representative Gara by request of the governor (copy on file).

Page 15, lines 20 - 21:

Delete "with any member of the legislature"

Page 17, line 22:

Delete "with any member of the legislature"

Page 18, line 5:

Delete "in"

Insert "to"

Delete "agent"

Insert "entity"

Page 18, lines 7 - 8:

Delete ", if the commissioner determines that the North Slope natural gas project is not making adequate progress toward a final investment decision,"

Page 18, line 8, following "state":

Insert "or an entity of the state"

Page 18, line 9, following "state":

Insert "or an entity of the state"

Page 18, line 10, following "state":

Insert "or an entity of the state"

Page 18, lines 10 - 11:

Delete "may not be on terms that are more restrictive than the terms that are applicable for access by"

Insert "must be on the same or substantially similar terms applicable to"

Page 34, line 18, following "by the":
Insert "average"

Page 34, line 19, following "the gas":
Insert "produced by the producer from the lease during the month,"

Page 34, line 23, following "If the":
Insert "credit or"

Page 34, line 27, following "by the":
Insert "average"

Page 34, line 28, following "the gas":
Insert "produced by the producer from the lease during the month,"

Page 35, line 12:
Delete "(1) flared, released, or allowed to escape and, under AS 43.55.020(e),"
Insert "that, under AS 43.55.020(e), is"

Page 35, lines 14 - 17:
Delete "; or
(2) used in the operation of a lease or property in the state in drilling for or producing oil or gas, or for repressuring and, under AS 43.55.020(e), considered as gas produced from a lease or property for the purpose of AS 43.55.011 - 43.55.180"

Page 36, line 15:
Delete "due under this chapter"

Page 57, line 8, following "of the":
Insert "following locations: the"

Page 57, line 13, following "the":
Insert "following locations: the"

Page 57, line 16, following "after":
Insert "completion of"

Page 57, line 19, following "the":
Insert "following locations: the"

Page 60, line 23:
Delete "and"

Page 60, following line 23:

Insert a new paragraph to read:

"(4) the costs, benefits, and risks associated with building a pipeline with a mainline diameter larger than 42 inches, including the effect of the increased diameter on compression, fuel, and other costs; the anticipated allocation of the cost of an increased diameter among project participants and the options for and effects of the state or participants in the project funding the increased diameter; a quantification of the potential benefits from the increased diameter that may include increased exploration activity and increased royalties and taxes from additional production transported in the increased capacity; and whether natural gas transported in the additional capacity is likely to be produced from federal or state land; and"

Renumber the following paragraph accordingly

Representative Wilson OBJECTED for discussion.

[9:08:21 PM](#)

MICHAEL PAWLOWSKI, DEPUTY COMMISSIONER, STRATEGIC FINANCE, DEPARTMENT OF REVENUE, discussed the amendment. He stated that the amendment clarified language in the House Resources Committee. He began with page one of the amendment. He noted the first two changes on lines 2 and 5, which clarified the relationship between the department and the legislative branch. The deletion of the words, "with any member of the legislature" provided clarification that the administration may share individually with consultants, staff and agents of the legislature as well as with members of the legislature individually. He noted the effective dates, which were changed in two places in the legislation. He pointed to line 5, page 18 of the legislation and the deletion of the word "in" and the insertion of the word "to" recognizing the contract to which the state is a party or an agent of the state is a party. He pointed out the deletion of the word "agent" on the same line, to be replaced with the word "entity."

[9:10:22 PM](#)

Mr. Pawlowski continued with page 18 of the legislation, lines 7 through 8 addressing the rights and access to data under the Alaska Liquefied Natural Gas (AKLNG) project by the state or by an entity of the state. The amendment proposed the deletion of the words "if the commissioner determines that the North Slope Natural Gas project is not making adequate progress toward a final investment decision." The following changes were consistent with the addition of "or an entity of the state" on page 18, lines 8 and 9 following "the state."

Mr. Pawlowski continued with the deletion of the words "may not" on page 10 to 11 and inserted "must be on the same or substantially similar terms applicable to." The amendment recognized that access to data happened early in the project. When the state was an investor, access was on the same and substantially similar terms to the other parties in the agreement, immediately upon entering the project.

Mr. Pawlowski addressed the next change on page 34 of the "tax as gas" section of the legislation. He moved to page 34; line 18, following the words "by the" the word "average" was inserted. The insertion of the word "average" recognized that taxes were paid on a monthly basis, and the clarifying word helped the department understand the use of the average gross value at the point of production for each unit.

Mr. Pawlowski mentioned the addition on page 34, line 19 of the words "produced by the producer from the lease during the month." The intent was to clarify that the gas discussed was the producer's gas rather than royalty or tax gas. Page 34, line 23 addressed the words "credit or refund" eliminating the words "credit or" allowing for consistency in the section. The same clarification was seen on page 34, line 27 with the use of the word "average." He noted that page 35 applied to "where tax as gas does not" option. The change deleted the words "flared, released or allowed to escape" and inserting the direct statutory reference. In the event of an accident, the tax due would be paid in value in the regular form of money because the gas could not be accounted for in a traditional way. He stated that page 35; lines 14 through 17 deleted the ambiguous language regarding taxable gas.

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Mr. Pawlowski continued with page 36, line 15. The reference "due under this chapter" in the education credit was deleted from the language. A credit may not be used against the tax as gas. He pointed to page 57 and the definition of the point of production. The department viewed the amendment as clarifying on lines 6 through 24. The section created three categories for the point of production for gas. In each of the three sections on page 3, lines 5-15 of the amendment the words "following locations" were inserted. Page 60, line 23 eliminated an errant "and" while inserting a new section at the request of the Department of Natural Resources.

[9:18:17 PM](#)

Mr. Pawlowski stated that the amendment's last change was to renumber the following sections accordingly.

Co-Chair Stoltze stated that the additional bills on the schedule would not be heard in the evening's meeting.

[9:18:58 PM](#)

Representative Gara MOVED to AMEND Amendment 1 with Amendment 2 to Amendment 1, 28-GS2806\H.51, Bullock, 4/17/14 by Representative Gara (copy on file).

TO: Amendment H.47 to HCS CSSB 138(RES)

Page 3, line 27, of the amendment, following "activity":
Insert "by parties and nonparties to the project"

Representative Holmes OBJECTED for discussion.

Representative Gara explained that the amendment to the amendment regarding the report for future expansion on page 3. He wished to ensure that the report involved expansion that was accessible to independent companies. After the word "activity" the words "by parties and nonparties to the project" was added.

Mr. Pawlowski determined that the amendment to the amendment was consistent with the dialog and supported the underlying amendment.

Representative Holmes withdrew her OBJECTION. There being NO OBJECTION, it was so ordered.

Amendment 2 to amendment 1 was ADOPTED. Amendment 1, as amended was before the committee.

[9:21:41 PM](#)

Co-Chair Stoltze MOVED to ADOPT Amendment 3 to Amendment 1, 28-GS2806\H.52, Bullock, 4/17/14 (copy on file).

TO: Amendment H.47 to HCS CSSB 21(RES) CSSB 138(RES)

Page 2, following line 6, of the amendment:
Insert new material to read:
"Page 18, line 12:
Delete "the"
Insert "a"

Representative Costello OBJECTED for discussion.

Mr. Pawlowski discussed the amendment to the amendment that was specific to the North Slope natural gas project and changed the word "the" to "a." The amendment was supported by the department.

Representative Costello WITHDREW her OBJECTION.

Amendment 3 to amendment 1 was ADOPTED. Amendment 1, as amended was before the committee.

Representative Holmes suggested that the amendment be considered conceptual due to the error in quotation marks around "a."

[9:23:55 PM](#)

Representative Gara asked about amendment 3 to amendment 1. He understood the intention to apply the language to a gas pipeline. He wondered if the project discussed might not be the project implemented.

[9:24:17 PM](#)

JOE BALASH, COMMISSIONER, THE DEPARTMENT OF NATURAL RESOURCES, explained that the law of general application

allowed for the use of "a" because more than one project may be eligible for the provisions of law.

Representative Wilson WITHDREW her OBJECTION. There being NO OBJECTION, it was so ordered. Amendment 1 as amended was ADOPTED.

[9:25:19 PM](#)

Representative Holmes MOVED to ADOPT Amendment 3, 28-GS2806\H.39, Bullock, 4/16/14 by Co-Chair Stoltze, Co-Chair Austerman, Vice-Chair Neuman, Representative Wilson, Representative Edgmon, Representative Costello, Representative Thompson, Representative Guttenberg and Representative Gara (copy on file).

Page 60, following line 5:

Insert a new bill section to read:

"* Sec. 66. Section 1(b), ch. 11, SLA 2013, is amended to read:

(b) It is the intent of the legislature that

(1) the Alaska Gasline Development Corporation, in its new placement as an independent public corporation of the state, shall be treated for all purposes as the transfer of a corporation within the state and not as the creation of a new entity by the State of Alaska;

(2) the Board of Directors of the Alaska Gasline Development Corporation commit to governing the Alaska Gasline Development Corporation so as to affect positively as many Alaskans as possible, including those in rural and coastal communities, and to extend opportunities for all Alaskans to benefit from the natural gas resources of the state, including propane and associated gas-related hydrocarbons other than oil;

(3) to the maximum extent permitted by law, in developing a natural gas pipeline, the Alaska Gasline Development Corporation shall procure services, labor, products, and natural resources from qualified businesses located in the state, including organizations owned by Alaska Natives and municipal organizations directly affected by the project, if those persons are competitive;

(4) the Alaska Gasline Development Corporation and an Alaska liquefied natural gas project as defined in AS 31.25.390 shall, to the maximum extent permitted by law,

(A) hire qualified residents from throughout the state for management, engineering, construction, operations, maintenance, and other positions for a natural gas pipeline project;

(B) establish hiring facilities in the state or use existing hiring facilities in the state; and

(C) use, as far as practicable, the job centers and associated services operated by the Department of Labor and Workforce Development and an Internet-based labor exchange system operated by the state; and

(5) the Alaska Gasline Development Corporation and its subsidiaries shall wind up and dissolve when no bonds, notes, or other obligations are outstanding and the Alaska Gasline Development Corporation or a subsidiary of the Alaska Gasline Development Corporation is no longer engaged in the development, financing, construction, or operation of an in-state natural gas pipeline."

Renumber the following bill sections accordingly.

Page 65, line 23:

Delete "72"

Insert "73"

Page 65, line 26:

Delete "secs. 73 and 74"

Insert "secs. 74 and 75"

Co-Chair Stoltze OBJECTED for discussion.

Representative Holmes discussed the intent language in last year's HB 4 related to the creation of Alaska Gasline Development Corporation (AGDC). She appreciated the language related to instate hire and training. She stated that instate hire was important for both construction and operations. The language also mentioned hiring facilities, job centers and the need for AGDC and the state to take an active role in ensuring that the incredible job training was available to Alaskans. She mentioned that the amendment was clarifying and the drafting required additional efforts. She wished to clarify AGDC's role in the AKLNG project.

[9:27:25 PM](#)

Representative Holmes MOVED to ADOPT Amendment 1 to Amendment 3, by Representative Holmes.

Page 1, Line20:

Delete:

"and"

After "Corporation" add: "in its participation in"

Page 1, Line 21:

After "AS 31.25.390" add "or a natural gas pipeline"

Co-Chair Stoltze OBJECTED for discussion.

Representative Holmes discussed the amendment to amendment 3. She explained that line 20 would read: "the Alaska Gasline Development Corporation in its participation in an Alaska Liquefied Natural Gas Project as defined in AS 31.25.390 or a Natural Gas Pipeline shall to the maximum extent permitted by law" continuing with language related to hiring qualified Alaskans, establishing hiring facilities in the state and using job centers located in Alaska.

[9:28:27 PM](#)

There being NO OBJECTION, it was so ordered. Amendment 1 to Amendment 3 was adopted. Amendment 3, as amended was before the committee.

Representative Gara asked about the Alaska-hire provisions. He wished to ensure that the provisions applied to the project whether or not it was affiliated with AGDC.

Commissioner Balash replied that the Alaska LNG project as contemplated in the Heads of Agreement (HOA) had applicable provisions. He pointed to Article 11 of the HOA.

Representative Gara appreciated the department's explanation.

Commissioner Balash replied that the provisions would apply to an Alaska LNG project.

Representative Gara asked whether or not AGDC was involved.

Commissioner Balash replied yes.

9:30:34 PM

Representative Guttenberg noted that some communities would be altered before the pipe was ordered. He stated that 1000 jobs related to operation and maintenance would be created by the project. He wished to ensure that the qualified employees had continued opportunities for the longer lasting jobs.

Mr. Pawlowski replied that other amendments in the packet built the foundation. He stressed that many jobs would become available with the advent of the LNG facility. The manufacturing facility was great with harbor and maritime related employment opportunities that would further develop communities and support families.

9:32:33 PM

Representative Holmes discussed line 23 stating that AGDC shall hire qualified residents from throughout the state for management, engineering, construction, operations, maintenance and other positions. She appreciated the language.

9:33:06 PM

Co-Chair Stoltze asked if the amendment was consistent with the operations and desires of the administration.

Commissioner Balash replied yes.

Representative Wilson WITHDREW her OBJECTION. Amendment 3 as amended was ADOPTED.

9:33:42 PM

Representative Holmes MOVED to ADOPT Amendment 4, the Alaska State Legislature Letter of Intent for SB 138 prepared by Representative Holmes, Representative Munoz Co-Chair Austerman, Representative Thompson, Representative Edgmon, Representative Costello and Representative Gara.

Letter of Intent for SB 138

It is the intent of the Alaska State Legislature that the Alaska LNG project honor the commitments, as

copied below, made in "Article 11: Alaska Hire and Content:", agreed to in the Heads of Intent Agreement by and among the Administration of the State of Alaska, Alaska Gas-line Development Corporation, TransCanada Alaska Development Inc., ExxonMobil Alaska Production Inc., ConocoPhillips Alaska, Inc., through construction of the project.

ARTICLE 11: ALASKA HIRE and CONTENT

11.1 For the Alaska LNG Project, the Alaska LNG Parties will, within the constraints of law:

- a. Employ Alaska residents and contract with Alaska businesses to the extent they are qualified, available, ready, willing and cost competitive;
- b. Use, as far as practicable, job centers and associated services operated by the State Department of Labor and Workforce Development;
- c. Participate with the State Department of Labor and Workforce Development to update the training plan for an LNG export project including main operations;
- d. Advertise for available positions locally and use, as far as practicable, Alaska job service organizations to notify the Alaska public; and
- e. Work with the State Department of Labor and Workforce Development and other organizations to provide training.

11.2 Prior to construction, the Alaska LNG Parties commit to negotiate in good faith project labor agreements for the Alaska LNG Project.

Representative Wilson OBJECTED for discussion.

Representative Holmes discussed the letter of intent which removed Article 11 (negotiated language related to local hire) from the HOA. The language was identical to that drafted by the Senate Finance Committee. She wished for the legislature's endorsement of the intent. The letter pertained to the employment of Alaskan residents and business. The letter addressed job centers and the update of training plans by the Department of Labor and Workforce Development and negotiating in good faith for project labor agreements. The letterhead used was that of the Alaska State Legislature.

Co-Chair Stoltze stated that the amendment was sponsored by Representative Holmes, Representative Munoz, Representative Thompson, Co-Chair Austerman, Representative Edgmon, Representative Costello and Representative Gara.

[9:35:15 PM](#)

Vice-Chair Neuman clarified that the letter of intent pertained to all Alaskan companies, whether union or nonunion.

Representative Holmes agreed.

Representative Guttenberg clarified that the letter of intent would be advanced to the legislature as a whole.

Co-Chair Stoltze agreed that the letter would be addressed on the House Floor.

[9:36:23 PM](#)

There being NO OBJECTION, it was so ordered. Amendment 4 was ADOPTED.

[9:36:45 PM](#)

Co-Chair Austerman MOVED to ADOPT Amendment 5, 28-GS2806\H.27, Bullock, 4/15/14 by Representative Wilson, Representative Costello, Representative Holmes, Representative Edgmon, Vice-Chair Neuman, Representative Thompson, Representative Gara, and Representative Guttenberg (copy on file).

Page 18, following line 15:

Insert a new subsection to read:

"(c) A proposed agreement or contract associated with a North Slope natural gas project must provide the means for allocating infrastructure costs between the state and other parties in the project. The allocation must take into consideration the extent to which infrastructure is used by the project and used by the public and the difference between the normal expected or actual life-cycle costs for the infrastructure as used by the project and the expected or actual life-cycle costs of the same infrastructure if subject only to general public use. The proposed agreement or contract may not require the state to pay

infrastructure costs that are directly related to the project and not designed for general public use in a proportionate amount that is greater than the state's share of participation in the project."

Co-Chair Stoltze OBJECTED for discussion.

9:36:59 PM

Co-Chair Austerman discussed Amendment 5. He noted that the outcome of discussions regarding the concerns of the infrastructure development and improvements that would occur around the North Slope natural gas project. The concern was related to the responsibility for improvements. The amendment pointed to various costs and whether the state or the industry retained the responsibility for them.

9:38:30 PM

Representative Gara distributed answers provided by the consultants. He explained that the amendment's importance was highlighted by the varying estimation of costs for infrastructure. He had asked Enalytica about the state share of the pipeline; the net present was reduced by greater payments of infrastructure costs. He hoped that the administration would consider the amendment seriously. A loss of 5 to 10 percent of the net present value of the pipeline resulting from full responsibility for the pipeline's construction was a serious consideration.

9:40:03 PM

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO OBJECTION, it was so ordered. Amendment 5 was ADOPTED.

9:40:34 PM

Vice-Chair Neuman MOVED to ADOPT Amendment 6, 28-GS2806\H.54 by Vice-Chair Neuman, Representative Thompson, Representative Wilson and Representative Guttenberg.

Page 2, line 17, following "fund;":
Insert "requiring the Department of Transportation and Public Facilities to evaluate the design and construction of a bridge across the Yukon River;"

Page 60, following line 6:

Insert a new bill section to read:

"* Sec. 67. The uncodified law of the State of Alaska is amended by adding a new section to read:
INFRASTRUCTURE. The Department of Transportation and Public Facilities shall, in consultation with the Alaska Gasline Development Corporation, evaluate the design and construction of a new, separate bridge across the Yukon River that would accommodate both vehicular traffic and a gas pipeline resulting from an Alaska liquefied natural gas project."

Renumber the following bill sections accordingly.

Page 65, line 23:
Delete "72"
Insert "73"

Page 65, line 26:
Delete "secs. 73 and 74"
Insert "secs. 74 and 75"

Co-Chair Stoltze OBJECTED for discussion.

Vice-Chair Neuman explained that the amendment replacement addressed the order of language regarding the Department of Transportation and Public Facilities and AGDC. He believed that the new order with the department listed prior to AGDC invited the department to the table in a different way and placed them in the title. He pointed out that the amendment was co-sponsored by Representative Thompson and Representative Wilson. He noted that the department and AGDC would evaluate the design and construction of a new separate bridge across the Yukon River. He suspected that the language would prove important in the upcoming process. He pointed out the Department of Transportation and Public Facilities' concern with the issue. The current bridge was 37 years old and suspended the oil pipeline. A new bridge was necessary to support both transportation and infrastructure. He mentioned concerns stated by the National Security Agency related to the two pipelines' proximity.

[9:44:27 PM](#)

Mr. Pawlowski appreciated the amendment's sponsor, which he opined built upon the previous amendment. The administration supported the amendment.

Representative Wilson WITHDREW her OBJECTION. There being NO OBJECTION, it was so ordered. Amendment was 6 was ADOPTED.

[9:45:17 PM](#)

Vice-Chair Neuman MOVED to ADOPT Amendment 7, 28-GS2806\H.55, Nauman/Bullock, 4/17/14 by Vice-Chair Neuman Representative Thompson, Representative Wilson, Representative Holmes, Representative Gara and Representative Costello (copy on file).

Page 2, line 17, following "fund;":
Insert "requiring the Department of Transportation and Public Facilities to evaluate certain bridges and infrastructure related to an Alaska liquefied natural gas project;"

Page 60, following line 6:
Insert a new bill section to read:
"* Sec. 67. The uncodified law of the State of Alaska is amended by adding a new section to read:
INFRASTRUCTURE. The Department of Transportation and Public Facilities shall, in consultation with the Alaska Gasline Development Corporation and the Department of Natural Resources, evaluate existing bridges and infrastructure and bridges and infrastructure constructed to accommodate a gas pipeline resulting from an Alaska liquefied natural gas project and determine whether the bridge or infrastructure could also be constructed for transportation uses, including vehicular traffic."

Renumber the following bill sections accordingly.

Page 65, line 23:
Delete "72"
Insert "73"

Page 65, line 26:
Delete "secs. 73 and 74"
Insert "secs. 74 and 75"

Co-Chair Stoltze OBJECTED for discussion.

[9:45:41 PM](#)

Vice-Chair Neuman stated that the replacement amendment changed the order of the Department of Transportation and Public Facilities and AGDC as in amendment 6. He stated that the amendment's co-sponsors included Representative Holmes, Representative Thompson, Representative Wilson, Representative Costello and Representative Gara. He appreciated the committee's support for the amendment that addressed other bridges and infrastructure in the pipeline's transportation route. He noted multiple bridges existing both large and small and the pipeline producers must work with the Department of Transportation and Public Facilities in a coordinated effort.

[9:48:15 PM](#)

Co-Chair Stoltze stated that the co-sponsors were not listed on the replacement amendments.

Representative Wilson WITHDREW his OBJECTION. There being NO OBJECTION, it was so ordered. Amendment 7 was ADOPTED.

[9:50:07 PM](#)

Representative Edgmon MOVED to ADOPT Amendment 8, 28-GS2806\H.31, Nauman/Bullock, 4/16/14 by Co-Chair Stoltze, Co-Chair Austerman, Representative Munoz, Representative Costello, Representative Wilson, Representative Thompson, Representative Holmes, Vice-Chair Neuman, Representative Gara and Representative Guttenberg (copy on file).

Page 62, line 14, following "shall":
Insert ", after considering the state energy policy under AS 44.99.115 and sec. 1, ch. 82, SLA 2010,"

Co-Chair Stoltze OBJECTED for discussion.

[9:50:20 PM](#)

Representative Edgmon discussed amendment 8 that connected section 69 of the bill related to a plan created by the Alaska Energy Authority to the energy policy currently in statute. The Alaska Energy Policy developed in 2010 in uncodified law was far more expansive in terms of the state's overall approach to providing energy to all corners of Alaska.

9:51:00 PM

Representative Gara clarified that the amendment included communities located in rural areas and off of the road system.

Representative Edgmon agreed. He stated that the Alaska Energy Policy took great pains to include all areas including residential, commercial and industrial.

Co-Chair Stoltze appreciated the clarification and commitment to rural energy and statewide needs.

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO OBJECTION, it was so ordered. Amendment 8 was ADOPTED.

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AT EASE

9:55:16 PM

RECONVENED

Representative Thompson MOVED to ADOPT Amendment 9, 28-GS2806\H.46, Nauman/Bullock, 4/17/14 by Representative Thompson and Representative Wilson and Vice-Chair Neuman (copy on file).

Page 18, line 14:
Delete "a payment in lieu of"
Insert "the"

Co-Chair Stoltze OBJECTED for discussion.

Representative Thompson discussed amendment 9 related to page 18, line 14 of the bill. He noted the elimination of "a payment in lieu of" and the insertion of the word "the." The language would affect the North Slope Borough, the Fairbanks North Star Borough, the Mat-Su Borough and the municipality of Anchorage. The language would prevent changes to property taxes.

9:56:25 PM

Representative Wilson echoed the comments made by Representative Thompson. She stated that support for the change was received by constituents.

Vice-Chair Neuman stated that the Mat-Su region would also be in alignment with the amendment.

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO OBJECTION, it was so ordered. Amendment 9 was ADOPTED.

[9:57:33 PM](#)

Co-Chair Stoltze MOVED to ADOPT Amendment 10 28-GS2806\H.36, Bullock, 4/16/14 (copy on file) by Co-Chair Stoltze, Co-Chair Austerman, Representative Wilson, Representative Costello, Representative Munoz, Representative Thompson, Representative Edgmon and Vice-Chair Neuman (copy on file).

Page 36, line 23:

Delete "a state operated"

Insert "

(A) a [STATE OPERATED]"

Delete ", "

Insert "in the state that offers programs approved by the United States Department of Veterans Affairs and the Alaska Commission on Postsecondary Education;

(B)"

Page 36, line 25:

Delete ", and"

Insert "; or

(C)"

Representative Costello OBJECTED for discussion.

Co-Chair Stoltze explained that SB 193 and SB 194 would be heard tonight with time.

[9:58:41 PM](#)

Co-Chair Stoltze stated that amendment 10 deleted state operated" and added "in the state that offers programs approved by the United States Department of Veterans Affairs and the Alaska Commission on Postsecondary Education." He stressed that the approval by both entities allowed for a strong standard of professional certification and requirements for accountability.

[9:59:52 PM](#)

Vice-Chair Neuman appreciated amendment 10. He stated that the Northern Industrial Training program worked in the northern region to provide additional opportunities. He noted reports on the lack of workforce and he wished to allow for many opportunities for the training of Alaskans.

Co-Chair Stoltze stated that private entities were adaptive and responsive to employer's needs. He noted that the area of education provided choice.

[10:00:59 PM](#)

Representative Costello WITHDREW her OBJECTION.

Representative Gara asked if the amendment was in addition to a credit eliminated earlier in the meeting.

Co-Chair Stoltze responded that the amendment addressed eligibility for training programs.

Representative Gara noted the credit mentioned on line 15.

Representative Thompson stated that credits were not eliminated.

Co-Chair Stoltze discussed the bicameral process.

Amendment 10 was ADOPTED.

[10:02:30 PM](#)

Co-Chair Stoltze MOVED to ADOPT Amendment 11, 28-GS2806\H.42, Bullock, 4/16/14 by Co-Chair Stoltze, Representative Thompson, Representative Edgmon and Representative Holmes (copy on file).

Page 5, lines 1 - 5:
Delete all material.

Re-number the following bill sections accordingly.

Page 15, line 29:
Delete "sec. 19"
Insert "sec. 18"

Page 20, line 9:
Delete "sec. 23"

Insert "sec. 22"

Page 24, line 11:

Delete "sec. 34"

Insert "sec. 33"

Page 28, line 4:

Delete "sec. 37"

Insert "sec. 36"

Page 36, line 13:

Delete "sec. 45"

Insert "sec. 44"

Page 61, line 4:

Delete "sec. 30"

Insert "sec. 29"

Page 62, line 6:

Delete "sec. 30"

Insert "sec. 29"

Page 63, line 11:

Delete "sec. 30"

Insert "sec. 29"

Page 63, line 16:

Delete "sec. 19"

Insert "sec. 18"

Page 63, line 18:

Delete "sec. 19"

Insert "sec. 18"

Page 65, line 23:

Delete "Sections 1 - 19, 22, 23, 30 - 34, 36, 37, 45, 47, and 63 - 72"

Insert "Sections 1 - 18, 21, 22, 29 - 33, 35, 36, 44, 46, and 62 - 71"

Page 65, line 25:

Delete "Section 46"

Insert "Section 45"

Page 64, line 26:

Delete "secs. 73 and 74"

Insert "secs. 72 and 73"

Representative Costello OBJECTED for discussion.

Co-Chair Stoltze discussed amendment 11 and the language inserted related to eligibility to serve on the gasline development board.

Representative Costello WITHDREW her OBJECTION. There being NO OBJECTION, it was so ordered. Amendment 11 was ADOPTED.

10:03:25 PM

Representative Gara MOVED to ADOPT Amendment 13, 28-GS2806\H.43, Bullock, 4/17/14 (copy on file).

Page 18, following line 15:

Insert a new subsection to read:

"(c) An agreement or contract in which the state or an agent of the state is a party that is negotiated under AS 38.05.020(b)(11) must include principles based on commercially reasonable terms for delivering natural gas to public utilities in the state when the demand for natural gas by the utilities exceeds the amount of the state's royalty natural gas and natural gas delivered to the state as payment of tax that is being transported in the North Slope natural gas project."

Representative Wilson OBJECTED for discussion.

10:04:23 PM

Representative Gara discussed amendment 13. He stated that Alaska would commit the natural gas in the beginning of the pipeline for instate use and export. The instate demand may grow, but the gas would be committed to an Asian entity. If a growth occurred in instate demand, more gas would be necessary. The amendment stated that with commercially reasonable terms, the state could obtain additional natural gas for instate use. He stated that Mr. Marks viewed that the amount of gas used in the state would be minimal and he could not envision a scenario where the necessary gas would not be available on the North Slope. If difficulty obtaining gas occurred, Alaskans would pay more.

10:05:49 PM

Representative Holmes MOVED Conceptual Amendment 1 to Amendment 13.

Page 18, following line 15:

Insert a new subsection to read:

"(c) An agreement or contract to which the state or an entity of the state is a party that is negotiated under AS 38.05.020(b)(11) must include principles based on commercially reasonable terms for delivering natural gas to public utilities in the state when the demand for natural gas by the utilities exceeds the amount of the state's royalty natural gas and natural gas delivered to the state as payment of tax that is available in a North Slope natural gas project."

Representative Wilson OBJECTED for discussion.

She discussed the conceptual amendment that would delete the word "in" and replace it with "to" and delete the word "agent" and replace it with "entity that is conforming to the changes made earlier in amendment 1." She pointed to lines 7 and 8 of the amendment where the words "being transported" were deleted and replaced with the word "available." On line 8, the word "the" was deleted and replaced with the word "a." She read the amendment. She suggested that amendment 13 discussed natural royalty gas of the state when that gas may have already been committed to instate or out of state purchasers. She wished to clarify the issue related to the obligation of royalty gas available.

[10:08:01 PM](#)

Mr. Pawlowski opined the conceptual amendment to amendment 13 achieved the underlying intent of the amendment in a way that would protect the administration and allow guidance for negotiation. He appreciated the efforts of Representative Holmes and Representative Gara for their work with the administration on the issue of long-term delivery of gas to Alaskans.

[10:08:56 PM](#)

Representative Wilson WITHDREW her OBJECTION. There being NO OBJECTION, it was so ordered. Amendment to amendment 13 was ADOPTED. Amendment 13, as amended was before the committee.

Vice-Chair Neuman stated that the amendment did not make sense to him. He read the amendment.

Mr. Pawlowski replied that the issue related to long-term contracts providing certainty for the state to finance and enter into the project. He noted the question of future principles governing the use of gas if additional amounts were required for state use. He stressed the amended end of the sentence that was important.

[10:10:49 PM](#)

Vice-Chair Neuman asked Commissioner Balash about the wholesale price of gas out of Cook Inlet. He wondered if less expensive gas deliverable from the North Slope to the pipeline would create different market conditions.

[10:11:53 PM](#)

Commissioner Balash stated that he did not have the answer to the question yet. He stated that the pricing of gas as a commodity including transport was not yet possible. He guessed that North Slope gas would be more expensive than Cook Inlet gas. Cook Inlet gas would not have the cost of transportation and treatment that the North Slope gas would incur. The success of exploration efforts in Cook Inlet would help answer the question. He noted that the price of gas would continue to rise with the consent decree signed by the Attorney General. The cost of exploration and development would drive the market price for natural gas in Cook Inlet. He found it difficult to predict that Cook Inlet gas would remain at a lower price than that found on and transported from the North Slope.

[10:14:01 PM](#)

Vice-Chair Neuman expressed concern about the final investment decision. He suspected that contracts would be difficult to obtain until after a completed open season for an AKLNG project. He thought that exploration in Cook Inlet would prove difficult without the certainty of contracts.

Commissioner Balash replied that Hilcorp Energy Company was seeking a rolling four-year contract with their public utility customers. He expected that the prospect of long-

term gas supply from AKLNG would encourage Hilcorp to offer longer term contracts to their customers.

Vice-Chair Neuman agreed with the assessment offered by the commissioner. He agreed that the arrangement would benefit the consumers and utility companies in South Central, but not for the producers.

Commissioner Balash relayed that those producers would be forced to compete.

10:17:03 PM

Co-Chair Stoltze asked for further considerations.

Representative Wilson WITHDREW her OBJECTION. There being NO OBJECTION, it was so ordered. Amendment 13 as amended was ADOPTED.

10:18:01 PM

Co-Chair Stoltze MOVED to ADOPT Amendment 2, 28-GS2806\H.50, Bullock, 4/17/14 by Co-Chair Stoltze, Co-Chair Austerman and Representative Gara by Request of the Governor (copy on file).

Page 19, line 13, following "gas":
Insert "or gas delivered to the state under AS 43.55.014"

Page 20, line 2:
Delete "the"
Insert "a"

Page 20, line 6:
Delete "and"

Page 20, line 7:
Delete the second occurrence of "the"
Insert "a"

Page 20, line 8, following "term":
Insert "; and
(4) the lessee or an affiliate of the lessee has committed to purchase, dispose of, or market the state's royalty gas taken in kind and gas delivered to the state under AS 43.55.014 on the same or

substantially similar terms as the lessee or an affiliate of the lessee sells, disposes of, or markets the lessee's gas"

Page 20, line 9, through page 21, line 12:
Delete all material.

Renumber the following bill sections accordingly.

Page 24, line 11:
Delete "sec. 34"
Insert "sec. 32"

Page 28, line 4:
Delete "sec. 37"
Insert "sec. 35"

Page 36, line 13:
Delete "sec. 45"
Insert "sec. 43"

Page 61, line 4:
Delete "sec. 30"
Insert "sec. 28"

Page 62, line 6:
Delete "sec. 30"
Insert "sec. 28"

Page 63, line 11:
Delete "sec. 30"
Insert "sec. 28"

Page 65, line 23:
Delete "23, 30 - 34, 36, 37, 45, 47, and 63 - 72"
Insert "28 - 32, 34, 35, 43, 45, and 61 - 70"

Page 65, line 25:
Delete "Section 46"
Insert "Section 44"

Page 65, line 26:
Delete "secs. 73 and 74"
Insert "secs. 71 and 72"

Representative Wilson OBJECTED for discussion.

[10:18:25 PM](#)

Commissioner Balash discussed the amendment seeking to reconcile sections 23, 24 and 25 found on page 19 of the bill. The amendment sought to combine the three sections with one effective date.

Co-Chair Stoltze MOVED to ADOPT amendment 1 to amendment 2 by Co-Chair Stoltze and Co-Chair Austerman.

Page 1 line17, following "has"
Delete: "committed"
Insert: "offered"

Representative Holmes OBJECTED for discussion.

[10:21:37 PM](#)

Commissioner Balash wished for consistency regarding language related to terms offered by the producers. By switching the language to "offered" an acceptance of an offer would precede any commitment.

[10:22:34 PM](#)

Mr. Pawlowski added that the commissioner could propose the disposition of royalty, but the legislation would bring the disposition back to the legislature for approval.

[10:23:01 PM](#)

Representative Holmes WITHDREW her OBJECTION. Amendment 1 to amendment 2 was adopted. Amendment 2, as amended was before the committee.

Representative Gara discussed his support of the amendment.

Co-Chair Stoltze noted the three sponsors.

Representative Wilson WITHDREW her OBJECTION. There being NO OBJECTION, it was so ordered. Amendment 2 as amended was adopted.

[10:24:37 PM](#)

Representative Gara MOVED to ADOPT Amendment 12, 28-GS2806\H.40, Nauman\Bullock, 4/16/14 by Representative Gara (copy on file).

Page 18, following line 15:

Insert a new subsection to read:

"(c) An agreement or contract negotiated under AS 38.05.020(b)(11) or other agreement or contract in which the state is a party and that is associated with a North Slope natural gas project may allow all parties the benefit of equalized capital costs that result from the expansion of the project. However, the agreement or contract must provide for an expansion to transport additional natural gas produced from a lease or property subject to the tax levied under AS 43.55.011(e) that may increase the average capital cost for each 1,000 cubic feet of natural gas above the level before the expansion; however, the cost of the expansion may not increase the equalized capital costs for a party that does not participate in the expansion above the highest capital cost for each 1,000 cubic feet of natural gas before the expansion."

Representative Wilson OBJECTED for discussion.

Representative Gara described amendment 12 as a "rolled-in rates" amendment. He stated that the agreement between the state and the producers allowed for an economical reduction of shipping prices for all parties. All of the parties shared in the reduction. If the pipeline was not large enough, then expansion through the prohibitively expensive process of looping would be required. The amendment would allow all parties to share in a reduced shipping cost. He believed that the benefit should continue if prices increased. Looping would not allow for extra gas in the pipeline if one party was forced to bear the full cost. He was advised by Mr. Meyer about the proposal and was informed that the arrangement was fair and equitable. He opined that the change was necessary if the state expanded the pipeline in a way that would allow for great exploration and employment opportunities in Alaska.

[10:28:48 PM](#)

Commissioner Balash stated that the administration was opposed to the amendment as it conflicted with the terms stated in the HOA. He noted that the North America based

project was fundamentally different from an LNG project. He discussed a scenario with four steps related to the cost to transport and expansion. He believed that a party participating in one of the later steps with long-term contracts selling gas as LNG, would incur higher rates in the long run. He agreed with the sentiment of the amendment, but argued that latecomers to the project would suffer. He sought a policy that served both the state and the public. He opined that flexibility would be beneficial. Establishing the best pipe diameter initially would solve the concerns addressed by a rolled-in rate policy.

[10:32:34 PM](#)

Vice-Chair Neuman agreed that the changing rates were unknown. He stated that the debt equity ratio would continue to change.

Commissioner Balash concurred.

[10:33:46 PM](#)

Representative Costello asked how the unregulated nature of the project impacted the amendment. She understood that the amendment was attractive, but the project's unregulated nature diminished the appeal.

Commissioner Balash replied that the amendment was crafted to match up with the HOA due to its tie with capital costs. He explained that a large portion of the pipeline rates were driven by the fuel gas consumed by the infrastructure. Fuel gas requirements would increase as compression was added to the pipeline system.

[10:35:54 PM](#)

Representative Gara stated his attempts to work with the administration on the issue for a commitment in the contract allowing for production of additional gas on the North Slope. He discussed the potential for a larger pipeline. He recalled a comment by Co-Chair Austerman regarding the value in a larger pipeline to accommodate expansions. He disagreed with the argument that consumers would be negatively affected by the amendment, because extra gas in the pipeline would allow for greater state revenue to subsidize the cost of natural gas for consumers.

If the pipeline was expanded through looping, the expense would ultimately fall on the consumers.

A roll call vote was taken on the motion.

IN FAVOR: Gara

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

The MOTION FAILED (1/10).

[10:40:39 PM](#)

Representative Gara MOVED to ADOPT Amendment 14, 28-GS2806\H.29, Nauman/Bullock, 4/16/14 by Representative Gara (copy on file).

Page 18, line 3:
Delete "a new section"
Insert "new sections"

Page 18, following line 15:
Insert a new section to read:
"Sec. 38.05.024. Prohibited agreement or contract term relating to the tax on oil production. An agreement or contract negotiated under AS 38.05.020(b)(11) or other agreement or contract in which the state is a party and that is associated with a North Slope natural gas project may not include a provision that reduces the tax levied on oil production under AS 43.55.011 or that requires compensation to a producer for future changes in the tax levied on oil production under AS 43.55.011."

Co-Chair Stoltze OBJECTED for discussion.

[10:41:14 PM](#)

Representative Gara discussed the recent proposals for gaslines in Alaska where the three major oil producers demanded a provision to lock-in oil tax rates for 25 years. The amendment ensured that the parties did not negotiate a lock-in of oil tax rates and removed the leverage the oil companies might have as favorable terms are negotiated. The state would make compromises if the industry attempted to lock-in rates. The amendment would allow for a much stronger negotiating position over the next two years.

Commissioner Balash opposed amendment 14. He appreciated the sentiments of the sponsor and had no intention of locking-in specific oil tax rates. He stated that the amendment's language was written in a way that would preclude the state from addressing matters that might be an indirect consequence with regard to the production tax system. The administration expected the oil business to remain healthy and carry the costs associated with natural gas production on the North Slope and especially at Prudhoe Bay and Point Thompson. The costs would be considered lease expenditures under the production tax system.

[10:45:34 PM](#)

Commissioner Balash continued with description of the Pt. Thompson agreement as it related to field costs. When the production tax system recognized upstream costs, the need for an upstream cost allowance would not be sought under the leases. If the legislature were to switch back to a gross tax system for oil, the door to resolve upstream gas costs would open. The matter would require contemplation in the agreements, but the amendment's language would preclude that contemplation.

Vice-Chair Neuman attempted to envision the future where less and less oil was produced in Alaska. He hoped that the state would find new reserves. He saw the potential for a future agreement with the producers for greater pipeline capacity. He informed the committee that he would not support the amendment.

[10:49:34 PM](#)

Representative Guttenberg noted the significant relationship between oil and gas. He believed that the amendment allowed a discussion about the important issue. If the committee ignored the option, future commissioners and legislators might be challenged with the decision making process.

Representative Gara responded to Vice-Chair Neuman's comments regarding changing future circumstances. He stressed that the amendment was unrelated to the concerns. He advocated for the flexibility to adjust to real world circumstance. The amendment would not prevent the state from partnering with industry. The legislature and the

public would continue to make those decisions. The provision would prevent the industry from demanding that the state lock in oil tax rates. The amendment would prevent industry from inserting a provision in a state negotiated contract related to penalties for changing oil taxes. He believed that the industry should not be allowed to lock in oil tax rates as part of the gas pipeline agreement.

Representative Wilson maintained her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg

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

The MOTION FAILED (2/9).

Representative Gara MOVED to ADOPT Amendment 15, 28-GS2806\H.22, Bullock, 4/15/14 by Representative Gara (copy on file).

Page 18, following line 15:

Insert a new subsection to read:

"(c) An agreement or contract in which the state or an agent of the state is a party that provides for the midstream transportation by a third party of natural gas received by the state as royalty or payment of tax may not require the state to reimburse the third party an amount for funds used during construction that is calculated using a rate that is more than one percent higher than the five-year constant maturity treasury rate reported by the federal reserve as of the date the agreement or contract is terminated. In this subsection, "midstream" means that part of a North Slope natural gas project that is upstream of a natural gas liquefaction facility."

Co-Chair Stoltze OBJECTED for discussion.

[10:55:10 PM](#)

Representative Gara explained the amendment. He noted that the contract with TransCanada allowed for a beneficial term; the state would pay their costs if the project did not go forward as planned. He stated that TransCanada had a

free ride because they would receive money back from a failed project with an additional 7.1 percent interest. TransCanada would receive a guaranteed profit. He quoted Roger Marks, Legislative Consultant, Legislative Budget and Audit Committee "in my judgment, the rate of interest for repaying TransCanada in the event the project is not sanctioned should be tied to the yield on five year treasury bills on the date of the enabling legislation." He noted that the rate was 1.6 percent at the time of the hearing. He agreed with Mr. Marks that the 7.1 percent profit in addition to repayment for the investment was too great.

[10:57:59 PM](#)

Commissioner Balash opposed the amendment as a contradiction of a material term in the Memorandum of Understanding (MOU). He wondered if the purpose of the amendment was to undo the agreement with TransCanada or to lead to renegotiation. He deemed a renegotiation process complex.

[10:59:17 PM](#)

Mr. Pawlowski reiterated the broad spectrum of the relationship with TransCanada in the terms agreed upon. He noted that the Alaska Gasline Inducement Act (AGIA) license required reimbursement of TransCanada for expenditures made by TransCanada. He noted approximately \$100 million worth of valuable work contributed by TransCanada to the project. The recovery of costs would occur through the pre-feed period. During the time period, the state would have the right to terminate the relationship with TransCanada with 90 day notice for any reason. The state had the benefit of the work and expertise, and the focus on an interest rate fundamentally misunderstood the relationship with TransCanada. He argued that the terms were consistent with those drafted with other pipeline companies in other projects. The deal with TransCanada involved the contribution of previous data, momentum, expertise and the ability for this or the next legislature to evaluate the relationship at the end of 2015. The development costs compensated TransCanada reasonably.

[11:01:34 PM](#)

Co-Chair Austerman asked about negotiations related to the 7.1 percent.

Commissioner Balash replied that the return on equity received by TransCanada was 12 percent if the project proceeded to construction. He stated that the corporate cost of capital was higher than the 7.1 percent. He stated that the 7.1 percent was derived through examination of the capital structure employed on the project during the construction phase. The cost of capital during construction was 7.1 percent.

[11:03:08 PM](#)

Mr. Pawlowski added that the discussion began with the commercial terms of 70/30 established by TransCanada and approved by the legislature. The state granted the AGIA license further down in the negotiations.

[11:03:51 PM](#)

Representative Gara explained that he had no motive to disrupt the arrangement with TransCanada. He stated that TransCanada had a record of building more pipelines in North America than any other company at fewer cost overruns than the producers. As a partner, TransCanada was a great pipeline builder. He had no motive to eliminate TransCanada. He stated the motive to enable the state to receive a fair deal. He stated that TransCanada would not take a loan out to pay costs, but would use cash on hand instead. He opined that the state was leveraged by TransCanada because they had the potential AGIA lawsuit against Alaska.

[11:06:16 PM](#)

Representative Wilson maintained her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg

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

The MOTION FAILED (2/9).

[11:07:28 PM](#)

Representative Gara WITHDREW Amendment 16, 28-GS2806\H.21, Bullock, 4/15/14 by Representative Gara (copy on file).

Representative Gara MOVED to ADOPT Amendment 17, 28-GS2806\H.5, Bullock, 4/12/14 by Representative Gara (copy on file).

Page 18, following line 15:

Insert a new subsection to read:

"(c) An agreement or contract in which the state or an agent of the state is a party that provides for transportation by a third party of natural gas received by the state as royalty or payment of tax may not require the state to reimburse the third party for more than 40 percent of the development costs incurred by the third party plus an amount for funds used during construction if the agreement or contract is terminated. The agreement or contract must describe the development costs that are subject to reimbursement and the rate or other method for determining the allowance for funds used during construction."

Representative Wilson OBJECTED for discussion.

Representative Gara explained the amendment related to repayment of only 40 percent of TransCanada's costs if necessary. The goal of the amendment was to create a more equitable relationship between the state and TransCanada. He noted that TransCanada was the only party in the contract that would get their investment back. He pointed out that the state was allowed to buy up to 40 percent of TransCanada's share of the facilities. He saw the benefit to TransCanada to be reimbursed for 40 percent of their costs when all other investors would bear 100 percent of their costs.

Representative Gara WITHDREW Amendment 17.

[11:10:09 PM](#)

Representative Gara MOVED to ADOPT Amendment 18, 28-GS2806\H.28, Bullock, 4/16/14 by Representative Gara (copy on file).

Page 18, following line 15:

Insert a new subsection to read:

"(c) A proposed agreement or contract related to the construction or operation of a North Slope natural gas project must include a severability provision to require that the remaining terms of the agreement or contract will continue to apply if a final decision by a court of competent jurisdiction finds that a part of the agreement or contract that relates to royalties, production taxes, payment of tax or royalty with gas rather than payment in value, property taxes, or other fiscal terms is unconstitutional."

Representative Wilson OBJECTED for discussion.

[11:10:24 PM](#)

Representative Gara discussed amendment 18. He noted that if a term was declared unconstitutional, the amendment would ensure that the entity could not remove them from the contract. He did not wish to reward a party that negotiated an unconstitutional provision with the ability to leverage. The provision would provide protection with a common mechanism. The courts would not enforce uncontainable terms. The amendment sought to protect the state from being leveraged by the majors if a provision was declared unconstitutional.

[11:12:21 PM](#)

Commissioner Balash opposed the amendment. He explained that the complete agreement was not yet established. He agreed that close attention must be paid to the agreements. Severability provisions would likely be considered. He noted that every party would attempt to mitigate an assortment of risks. He spoke to the importance of fall-back provisions in the event of an adverse court decision. He stated that he recognized that the agreement and statutory language would be difficult to contend with because of the limit to specific issues addressed. He noted that some solutions would be commercial as opposed to fiscal.

[11:16:02 PM](#)

Representative Holmes agreed that the severability clauses existed in most agreements. She anticipated that the agreements would have those clauses. She took issue with

the amendment language because of the reference to a limiting provision related to a payment of tax or royalty with gas rather than a payment in value. She supported the use of severability clauses in the contracts, but would value greater nuance in their language.

[11:18:28 PM](#)

Mr. Pawlowski appreciated the insights expressed by Representative Holmes. He stated that the adoption of amendment 1 allowed the opportunity and responsibility to engage the legislature over the next two years as the agreements evolve.

[11:19:56 PM](#)

Representative Guttenberg asked about the difference between the severability clause in statute and the one in the contract.

Mr. Pawlowski replied that the amendment required severability clause use for each of the scenarios listed. The technicality of each clause was deferred to the Department of Law.

Representative Guttenberg asked if different types of severability clauses and contracts might be employed. He asked if the amendment provided for only one kind of severability clause.

[11:21:47 PM](#)

Commissioner Balash interpreted that the clause must be included, but others could be employed as well.

Mr. Pawlowski requested testimony from the Department of Law.

[11:22:52 PM](#)

SUSAN POLLARD, OIL, GAS, AND MINING SECTION, DEPARTMENT OF LAW, discussed the statutory provision on severability as compared to contractual provisions on severability. She agreed that contract employed a variety of methods to address particular provisions in a contract. The choice would depend on the party's transactions and intent. The statutory provision applied to a statute but not a

contract. A court must review a particular statute and the severability provision to determine whether the statutory provision could proceed.

[11:24:48 PM](#)

Representative Gara wished to eliminate worry about a contractual provision declared unconstitutional. The statute was unrelated to a contract provision declared unconstitutional by the courts.

Ms. Pollard stated that the statute would apply to legislation as opposed to contracts between private parties.

[11:25:30 PM](#)

Representative Gara recalled that contracts normally included a severability clause. The clause was not automatically included in the contract. The point of the amendment was to eliminate the need to fight for the severability clause because the statute would remove the option as a negotiating point. He pointed out that negotiation with the major oil companies could prove difficult. If a term was deemed unconstitutional via the amendment, the parties involved would proceed through negotiation.

[11:28:01 PM](#)

Representative Wilson maintained her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg

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

The MOTION FAILED (2/9).

[11:29:19 PM](#)

AT EASE

[11:37:14 PM](#)

RECONVENED

Vice-Chair Neuman MOVED to ADOPT Amendment 19 by Vice-Chair Neuman (copy on file).

Page 23, line 1:

Following the words: "means a project to produce"

Insert the words: "or transport"

Representative Wilson OBJECTED for discussion.

Vice-Chair Neuman discussed the amendment. He pointed to page 23, line 1, paragraph, 27 of section 30. He noted three different definitions describing the project. One definition was "a project to produce natural gas." He noted that amendment 19 would add the words "or transport" after the word "produce" leading to "North Slope natural gas project means a project to produce or transport natural gas from a state oil or gas." He referred to page 5 in the HOA, and the project components including the LNG plant, gas treatment pipelines, the treatment plant, Prudhoe Bay gas transmission line and Point Thompson unit gas transmission line. He wished to better describe the full project including the pipelines through the clarifying amendment.

[11:39:20 PM](#)

Mr. Pawlowski appreciated the amendment. He stated that the underlying problem with reference to the North Slope natural gas project. He agreed that the addition of "or transport" to the definition would allow the application of a non-production related project. He stated that the detail had been missed by the administration and multiple legislative committees. He appreciated Vice-Chair Neuman's attention to detail.

[11:40:09 PM](#)

Representative Wilson WITHDREW his OBJECTION. There being NO OBJECTION, it was so ordered. Amendment 19 was ADOPTED.

Co-Chair Stoltze MOVED to ADOPT Amendment 20 28-GS2806\H.53, Bullock, 4/17/14 by Co-Chair Stoltze and Co-Chair Austerman by request of the governor.

Page 1, before line 1, of the amendment:
Insert new material to read:

"Page 2, line 12:
Delete "interim advisory board"
Insert "advisory planning group"

Page 4, following line 1, of the amendment:
Insert new material to read:
"Page 61, lines 7 - 8:
Delete "INTERIM ADVISORY BOARD"
Insert "ADVISORY PLANNING GROUP"

Page 61, line 8:
Delete "interim advisory board"
Insert "advisory planning group"

Page 61, line 9:
Delete "AS 44.19.028"
Insert "AS 44.19.145"

Page 61, line 10:
Delete " board"
Insert "planning group"

Page 61, line 15:
Delete "board"
Insert "planning group"

Representative Gara OBJECTED for discussion.

Mr. Pawlowski discussed amendment 20. He pointed to page 61 of the legislation related to an interim advisory board. He discussed the property tax issues and needs related to the project. He noted that lines 18 and 19 of amendment 20 matched the statutory authority in the governor's administrative order, which necessitated a change in terminology from interim advisory board to advisory planning group.

[11:42:02 PM](#)

Representative Thompson asked about the municipal advisory group listed by the governor. He believed that the group lacked important contributors such as the City of Fairbanks and the City of North Pole. He noted that construction workers would inhabit both cities during their time off. He wished to have the communities included in the discussion so that the pre-construction impact dollars could obtain adequate consideration.

Mr. Pawlowski appreciated the information. He mentioned that the advisory group's meetings were public, open and transparent. He agreed with the concern about the attention needed to understand the social impacts of the project. He mentioned the demands on all of the communities and noted the administration's commitment to working with all of the interested groups to bring the best information forward.

[11:43:44 PM](#)

Representative Thompson discussed public safety issues including the police, fire department and emergency medical technicians (EMT). He stressed the need to consider public safety organizations prior to the construction process.

Vice-Chair Neuman appreciated the comments made by Representative Thompson.

[11:44:36 PM](#)

Representative Gara asked about the amendment on page 1. He did not understand the reference to "before line 1."

[11:45:16 PM](#)

Mr. Pawlowski stated that the amendment was drafted as an amendment to amendment 1, which was adopted earlier in the meeting.

Representative Gara asked if page 2, line 12 and page 61, lines 7 and 8 would be changed by the amendment.

Mr. Pawlowski concurred.

[11:45:59 PM](#)

Representative Gara stated that the name of the group changed from interim advisory board to advisory planning group. He was unsure about location of the term "advisory planning group" in the statute.

Mr. Pawlowski replied that the reference was to the statutory authority used by the governor to issue the administrative order.

Representative Gara clarified that the administrative order initiated an advisory planning group.

Mr. Pawlowski concurred.

11:47:09 PM

Co-Chair Stoltze stated that amendment 20 would amend amendment 1.

Representative Wilson withdrew her OBJECTION. There being NO OBJECTION, it was so ordered. Amendment 20 was ADOPTED.

Co-Chair Stoltze explained that the bill's fiscal notes would be discussed in the next day's meeting.

Representative Gara noted that information regarding the relative state share of the project compared to other jurisdictions was not provided to the committee. He wished to see the information on the House Floor before a final decision was made on the bill.

Commissioner Balash replied that he would provide clarification in the morning.

11:49:26 PM

Vice-Chair Neuman MOVED to REPORT HCSCSSB 138(FIN) out of committee with individual recommendations and the accompanying fiscal notes.

HCSCSSB 138(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal note from the Department of Commerce, Community and Economic Development, one new fiscal note from the Department of Transportation and Public Facilities, one new fiscal note from the House Finance Committee, two new fiscal notes from the Department of Revenue, one new fiscal note from the Department of Natural Resources, and one previously published fiscal note: FN16 (CED).

11:53:05 PM

AT EASE

11:56:26 PM

RECONVENED

#sb194

CS FOR SENATE BILL NO. 194(FIN)

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

11:56:32 PM

GENEVIEVE WOJTUSIK, STAFF, SENATOR LESIL MCGUIRE introduced herself.

11:57:47 PM

ROBERTA GRAHAM, ASSISTANT COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, testified that the bill formalized the relationship between the industry and the department. She stated that the department supported the legislation and she offered to answer questions. She noted that 21 members would be appointed by the governor as proposed by the leading trade association. She stated that the bill would allow the board to work with the department on the marketing of Alaska as a travel destination. She mentioned a fiscal note for \$3000 representing the two meetings required in the bill.

11:59:30 PM

BILL PEDDLER, ALASKA TOURISM ASSOCIATION, testified that the industry supported the bill. Since 1988, a formalized statutory relationship was established between the Alaska travel industry and the state. The relationship suffered a few years ago, and the need to formalize the relationship was again deemed necessary.

Representative Wilson stated that the board had 21 members. She wondered if quorums might be difficult to obtain.

Mr. Peddler replied that the bill required a quorum including one member from each region of the state and a minimum of nine voting members attending. He stated that a quorum was never difficult to obtain as the subject was a passionate one amongst all the industry members.

Representative Wilson stated that she participated in a similar group as an assembly member. She appreciated the legislation.

Representative Munoz asked about the benefit of the statute.

Ms. Graham replied that the marketing committee of the Alaska Travel Industry Association (ATIA) was affiliated with the trade association. She stated that the qualified trade association was in statute.

[Note: Meeting continued in minutes dated 4/18/14 12:01 a.m.]

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[11:59:59 PM](#)