

**ALASKA STATE LEGISLATURE**  
**HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

February 21, 2014

3:23 p.m.

**MEMBERS PRESENT**

Representative Kurt Olson, Chair  
Representative Lora Reinbold, Vice Chair  
Representative Mike Chenault  
Representative Andy Josephson

**MEMBERS ABSENT**

Representative Bob Herron  
Representative Charisse Millett  
Representative Dan Saddler

**COMMITTEE CALENDAR**

PRESENTATION: ALASKA LNG PROJECT - MEMORANDUM OF UNDERSTANDING  
- HEADS OF AGREEMENT

- HEARD

HOUSE BILL NO. 230

"An Act allowing the Alaska Industrial Development and Export Authority to issue bonds for an oil or gas processing facility; and creating the oil and gas infrastructure fund to finance construction or improvement of an oil or gas processing facility."

- HEARD & HELD

HOUSE BILL NO. 300

"An Act relating to air ambulance service providers, air ambulance membership agreements, and regulation of air ambulance service providers and air ambulance membership agreements by the division of insurance; and providing for an effective date."

- HEARD & HELD

HOUSE CONCURRENT RESOLUTION NO. 15

Relating to the continuation of the Task Force on Unmanned Aircraft Systems.

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 230

SHORT TITLE: AIDEA BONDS FOR PROCESSING FACILITIES

SPONSOR(s): REPRESENTATIVE(s) SEATON

01/21/14 (H) PREFILE RELEASED 1/10/14  
01/21/14 (H) READ THE FIRST TIME - REFERRALS  
01/21/14 (H) L&C, FIN  
02/21/14 (H) L&C AT 3:15 PM BARNES 124

BILL: HB 300

SHORT TITLE: AIR AMBULANCE SERVICES

SPONSOR(s): REPRESENTATIVE(s) MUNOZ

02/05/14 (H) READ THE FIRST TIME - REFERRALS  
02/05/14 (H) L&C  
02/21/14 (H) L&C AT 3:15 PM BARNES 124

BILL: HCR 15

SHORT TITLE: TASK FORCE ON UNMANNED AIRCRAFT SYSTEMS

SPONSOR(s): REPRESENTATIVE(s) HUGHES

01/21/14 (H) READ THE FIRST TIME - REFERRALS  
01/21/14 (H) L&C  
02/21/14 (H) L&C AT 3:15 PM BARNES 124

**WITNESS REGISTER**

ANGELA RODELL, Commissioner  
Department of Revenue (DOR)  
Juneau, Alaska

**POSITION STATEMENT:** Presented the overview of the LNG Project-Memorandum of Understanding - Heads of Agreement.

REPRESENTATIVE PAUL SEATON  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Testified as the prime sponsor of HB 230.

TED LEONARD, Executive Director  
Alaska Industrial Development and Export Authority (AIDEA)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified and answered questions on HB 230.

MATT FONDER, Director

Anchorage Office  
Tax Division  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified and answered questions on HB 230.

REPRESENTATIVE CATHY MUNOZ  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HB 300 as prime sponsor.

GINGER BLAISDELL, Staff  
Representative Shelley Hughes  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Testified on HCR 15 on behalf of Representative Hughes, sponsor.

STEVE COLLIGAN, Member  
Task Force on Unmanned Aircraft Systems  
Wasilla, Alaska

**POSITION STATEMENT:** Testified during the discussion of HCR 15.

#### **ACTION NARRATIVE**

[3:23:04 PM](#)

**CHAIR KURT OLSON** called the House Labor and Commerce Standing Committee meeting to order at 3:23 p.m. Representatives Chenault, Reinbold, Josephson, and Olson were present at the call to order.

**Presentation: Alaska LNG Project - Memorandum of Understanding  
- Heads of Agreement**

[3:23:20 PM](#)

CHAIR OLSON announced that the first order of business would be a presentation: LNG Project - Memorandum of Understanding - Heads of Agreement.

[3:23:29 PM](#)

ANGELA RODELL, Commissioner, Department of Revenue (DOR), stated she would continue the presentation using the handout distributed at the last hearing. At that hearing the department reviewed the Heads of Agreement (HOA), noting the HOA provides the framework and lays out the expectations of each of the parties. In Article 5 of that agreement, the department outlined the state's participation. Article 5.3 specifically expresses the desire to have the state's participation in each component of the project consistent with the state's gas share of approximately 20 to 25 percent. She indicated that the state's participation would require significant financial and human resources.

COMMISSIONER RODELL said the department believes the path forward is to take advantage of the partnership in existence [slide 16]. The state's partnership with TransCanada Alaska Development Inc. (TransCanada) under the Alaska Gasline Inducement Act's (AGIA) framework and investments made by both the state and TransCanada makes TransCanada a natural partner to assist the state in moving this project forward. She offered her belief that the state needs a partner in this project since "at the end of the day" the state is a government with an obligation to Alaskans to continue to provide a safe, prosperous environment in which to live. The DOR will need to continue collecting taxes, auditing taxpayers, processing permanent fund dividend payments, and administering child support. Additionally, a partner will bring expertise the state lacks. She related that TransCanada is an independent pipeline company with proven experience in getting pipelines built. Not only that, but TransCanada has spent the last six years developing and understanding the environment and challenges unique to Alaska. As commissioner of DOR she has, in conjunction with Commissioner Joe Balash, Department of Natural Resources, determined it is in the best interest of the state to enter into a Memorandum of Understanding (MOU) with TransCanada.

[3:25:45 PM](#)

COMMISSIONER RODELL reviewed the definition of an MOU, which read [slide 16]:

A legal document outlining the terms and details of an agreement between parties, including each parties' requirements and responsibilities. The MOU is often the first stage in the formation of a formal contract. An MOU is far more formal than a handshake and is given weight in a court of law should one party fail to meet the obligations of the memorandum.

COMMISSIONER RODELL stated that the MOU with TransCanada outlines the state's expectations of TransCanada's participation in the midstream, but it will not be binding until the legislature enacts enabling legislation.

[3:26:22 PM](#)

COMMISSIONER RODELL discussed key terms of the MOU [slide 17]. She explained that Exhibit C is the Alaska LNG Midstream Services Agreement, which sets out the commercial terms under which TransCanada shall operate and expand the midstream components of the Alaska LNG project. She described the five key terms of Exhibit C. First, the MOU provides a favorable debt-to-equity ratio of 75/25 for ratemaking purposes which will reduce the state's tariff. A lower tariff not only improves the state's overall cash flow but allows the state to provide lower cost gas to Alaskans. Second, the cash contributions by TransCanada, as the project developer, will reduce the state's exposure to cash calls and obligations until the pipeline is in service. Third, improved value to the treasury happens when considering the opportunity cost of utilizing the state's capital, which not only earns six percent in the treasury, but preserves the state's flexibility going forward in terms of how the cash is used and what it is used for. Thus, the net present value (NPV) is improved overall. Fourth, with respect to expansions, TransCanada today committed to a 70/30 capital structure. Fifth, with respect to gas to Alaskans, TransCanada committed to at least five offtake points with distance sensitive rates with three zones for delivery.

[3:27:46 PM](#)

COMMISSIONER RODELL highlighted where the state is today [slide 18]. First the state has the settlement at Point Thomson, which has led to a workforce of almost 1,200 workers and the development of core infrastructure to move oil and gas resources. The state knows it has access to significant volumes of gas needed that when combined with the gas resources in Prudhoe Bay allows the state to enter into long-term sales contracts. In 2011, the governor called for the various parties to shift their focus to LNG and determine if they could align on a project together. Work done by TransCanada and ExxonMobil Alaska Production, Inc. under Alaska Gasline Inducement Act (AGIA) and the Alaska Pipeline project, along with BP Exploration Alaska and ConocoPhillips Alaska, Inc. under the Denali project provided a foundation of the concept selection. She identified concept selection as the process of undertaking the research to determine if there is a project and what the project would look like. This past October, that phase concluded with the determination that an LNG project with a gas treatment facility on the North Slope, 800 miles of pipeline and an LNG plant and related marine facilities located in Nikiski would be that project. This demonstrates above all else, that when everyone combines forces, a project can be advanced.

[3:29:20 PM](#)

CHAIR OLSON referred to the 70/30 split and asked which TransCanada entity committed to the terms. He recalled two entities were involved in the project, including the parent corporation and the new one.

COMMISSIONER RODELL answered that the parent company [TransCanada Alaska Development, Inc.] signed the MOU.

[3:30:03 PM](#)

COMMISSIONER RODELL related that the state's investment of \$330 million under Alaska Gasline Inducement Act (AGIA), \$130 million by TransCanada Alaska Development Inc. (TransCanada) and ExxonMobil Alaska Production, Inc. as partners under AGIA. Under the Denali project, BP Exploration (Alaska) Inc. and ConocoPhillips Alaska, Inc. spent approximately \$200 million.

At the end of April 14, if enabling legislation passes, the project will move into preliminary Front-End Engineering and Design (Pre-FEED) phase. Under this process, all AGIA and Denali work will be contributed to the Alaska LNG project. The state and TransCanada mutually agree to abandon AGIA at that point. In the event the state decides not to move forward with a partnership with TransCanada, the state will need to decide whether it will want to buy balance of data produced by TransCanada and ExxonMobil Alaska Production, Inc. in connection with AGIA.

[3:31:13 PM](#)

REPRESENTATIVE JOSEPHSON asked for clarification on the \$130 million for the balance of the AGIA funds. He was unsure about the "divorce" since it suggests that TransCanada would agree to mutual abandonment of AGIA even if the state doesn't partner with TransCanada on the Alaska LNG line. He said he didn't hear TransCanada testify to that aspect.

COMMISSIONER RODELL said the department has not had conversations in the event that enabling legislature did not pass or if the bill precludes TransCanada's participation going forward. She said that TransCanada is prepared to work with the state on unwinding TransCanada. They recognize that the FY 2015 budget does not contain any funding request and there will be no further funding for the AGIA license going forward. It will be a process of how the state evidences the end of AGIA; however, the department has not had those conversations since the state has been proceeding with the MOU.

[3:33:17 PM](#)

REPRESENTATIVE JOSEPHSON discussed the provisions of AGIA with respect to the penalties and said he was not presently concerned about staying in a 30-year relationship with TransCanada. He pointed out that the legislative legal drafter's advice was that the project is uneconomical because it's really designed to go to Alberta, which is uneconomical. However, he said he was unsure that TransCanada will just "let us off the hook if we cut

them \$130 million." In other words, "We better be married." He asked for further clarification.

COMMISSIONER RODELL answered that she doesn't represent TransCanada so she cannot preclude any actions TransCanada or the state are entitled to take.

[3:34:19 PM](#)

CHAIR OLSON remarked that the route to Alberta failed on three different occasions so it is not a factor at this point in time since it didn't "pencil out."

REPRESENTATIVE JOSEPHSON recalled testimony before the House Resources Committee in which Mr. Bullock said that technically AGIA is about Alberta and an "abandonment question" would concern Alberta. He hoped some of these questions just become academic questions.

[3:34:58 PM](#)

COMMISSIONER RODELL understood tremendous nuances exist with respect to AGIA, and the Department of Law will ensure that the administration walks this very carefully and follow what needs to happen.

REPRESENTATIVE CHENAULT remarked that he has concerns about the proposed Alaska LNG structure, but some of his concerns are also about the AGIA structure. He said that the legislature cannot get a determination from the DOL on what treble damages actually means. As the legislature moves through this process some pointed questions need to be asked to avoid the current AGIA situation: not knowing the final costs to exit the process. He acknowledged that he hasn't seen where anyone has said that TransCanada is willing to "just sign off on the dotted line and then let's move forward." He considers the Alaska LNG proposal, [the HOA and MOU], as a partnership that has been developed between the legislature, the administration, and TransCanada to move forward, and if the state moves forward as proposed, the state won't incur treble damages or the threat of treble

damages. He acknowledged that as this moves forward lots of concerns exist.

[3:36:49 PM](#)

REPRESENTATIVE CHENAULT referred to slide 18 entitled "Where We Are Today?" to the participation, with Alaska putting in \$130 million, TransCanada putting in \$130, and Denali's BP Exploration Alaska and ConocoPhillips Alaska, Inc. "are looking at \$200 million." He said in the next phase the state will fund \$70 million. He asked what funding the "big three" and TransCanada will be making.

COMMISSIONER RODELL answered that takes her to the next slide [slide 19] entitled "What Happens if HB 277 Passes?" If the process moves forward, the producers will put in between \$348 and \$327 million, depending on whether the state participates at 20 percent or 25 percent level. The estimated cost for Pre-Front End Engineering & Design (Pre-FEED) over the next 12 to 18 months will be approximately \$435 million. If the state participates at 20 percent, the producers will pick up \$348 million, which will be reduced to \$327 million if the state's share is 25 percent. The state's share of liquefaction is between \$35 and \$43 million. TransCanada's portion would be from \$53 to \$67 million for the midstream components.

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REPRESENTATIVE CHENAULT reiterated the participation figures for the state being between \$327 and \$348 million. He offered his belief that the governor has asked for about \$70 million.

COMMISSIONER RODELL answered yes. She related her understanding that the Alaska Gasline Development Corporation (AGDC) made assumptions, which includes a contingency over cost of about 40 percent, including money for administrative staff and consultants. She explained that as the process continues, the fiscal note will also be refined.

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COMMISSIONER RODELL said that at the end of this period the administration expects to have a series of contracts that will be approved or not approved by the legislature. If the legislature moves forward with the Alaska LNG project, the state needs to decide whether to exercise the option TransCanada has offered, which is to reimburse 40 percent of the project costs as the project moves to the Pre-FEED stage. She offered her belief that this allows the state the flexibility to not decide if it is "all in" or not. Instead, the pre-FEED work can advance and the state can make the decision later on how to proceed. If the state wants to stop TransCanada's involvement and take on 100 percent, the state will reimburse TransCanada the development costs it fronted on behalf of the state through the 12 to 18 month [Pre-FEED] period, plus interest at 7.1 percent.

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COMMISSIONER RODELL turned to slide 20 entitled "What Happens after FEED?" This period consists of front end engineering and design estimated to last two to three years at estimated total cost of \$1.8 billion dollars. Of that, the producers would take on 1.35 and 1.44 billion dollars, the state liquefaction share would range from \$145 to \$180 million. Additionally, the state's share if it exercises the "take back" option will increase from \$145 to \$180 million to \$230 and \$290 million. TransCanada's share will range from \$250 to \$270 million, and if the state exercises its option, TransCanada's share will range from \$130 to \$160 million, which represents the 60 percent differential. At the end of this period, the state would determine if it has the approval of all parties to move forward and begin construction. If yes, the state has the opportunity to pay TransCanada's development costs and if the state comes in at 40 percent would pay \$183 million or if it could be as much as \$337 million if it takes on whole project costs to date plus 7.1 percent interest.

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COMMISSIONER RODELL summarized that the HOA and MOU provide guidance on how the powers provided in HB 277 will be used

[slide 21]. At each stage in the project there are "off-ramps" and decision points for legislative and public review. Commitments by the state will be made commensurate with progress of the project and commensurate with the other parties in the Alaska LNG project.

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REPRESENTATIVE JOSEPHSON moved beyond the Pre-FEED to FEED period to approximately three years from now. He asked whether the project will end if the gas contracts with Asia don't materialize.

COMMISSIONER RODELL answered yes. At the end of the FEED stage, if the state decides to move forward, it must figure out how it wants to finance its share, regardless of TransCanada's participation. The state will have to invest a significant portion of financing to meet the capital costs for construction. For the purpose of simplicity, if the construction costs were \$10 billion and the state's funding \$4 billion, the state would need to decide how to raise the money and adjust for that. She said that this is why the administration is taking steps by including TransCanada in the partnership so the state does not have to raise \$10 billion in a time period when the DOR is forecasting revenues today that cannot support a \$10 billion investment. Further, the state is trying to do other things to provide capacity within the state's debt or liability, whether that means moving \$3 billion to the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) trust fund to create relief within the operating budget and on the state's liability to demonstrate that the state can take on additional debt 10 years down the road.

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The committee took an at-ease from 3:46 p.m. to 3:47 p.m.

**HB 230-AIDEA BONDS FOR PROCESSING FACILITIES**

[3:47:27 PM](#)

CHAIR OLSON announced that the next order of business would be HOUSE BILL NO. 230, "An Act allowing the Alaska Industrial Development and Export Authority to issue bonds for an oil or gas processing facility; and creating the oil and gas infrastructure fund to finance construction or improvement of an oil or gas processing facility."

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REPRESENTATIVE PAUL SEATON, Alaska State Legislature, as the prime sponsor, stated that HB 230 moves forward the strategy to increase oil in the Trans-Alaska Pipeline System (TAPS) and increase throughput. An impediment to increasing oil in TAPS has been the difficulty in access to existing processing facilities, including water and gas constraint within the handling facilities. Also, companies want to reserve space for their own product. This bill is to remove these impediments.

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REPRESENTATIVE REINBOLD moved to adopt the proposed committee substitute, (CS) for HB 230 labeled 28-LS1053\U, Martin, 2/10/14, as the working document.

REPRESENTATIVE JOSEPHSON objected for the purpose of discussion.

[3:49:16 PM](#)

REPRESENTATIVE SEATON explained that HB 230 would expand the Alaska Industrial Development and Export Authority (AIDEA). It are limited to \$400 million bonding authority for all of its projects. He said that oil and gas processing facilities are expensive, and HB 230 will allow AIDEA to issue up to \$200 million in bonds to fund projects without additional legislative authority. He said this relieves constraint in two ways. First, it isn't clear under the statutes that AIDEA has authority to finance oil and gas processing facilities. Second, it removes the monetary restraint. If the legislature approves this bonding, it provides authority on a timeline for commercial operations and accelerates the production of oil from smaller fields into the pipeline. He stated that the current \$10

million limit, in effect, means AIDEA must come back to the legislature for approval, which means sometimes waiting until the legislature is in session. Thus, this bill would allow AIDEA to issue bonds up to \$200 million for oil and gas processing equipment and renovations.

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REPRESENTATIVE SEATON explained that HB 230 also creates the [Oil and Gas Infrastructure Fund to assist in financing oil and gas processing facilities on the North Slope]. The legislature may decide to appropriate funds rather than use a bonding authority. Historically, the state has negotiated with AIDEA between 10 to 12 percent on bonds so the state will make money on these loans and the new fund will be the repository of the earnings, which will be used for oil and gas projects. The current AIDEA fund can be used for any economic development. Thus, if the legislature wishes to target the extra bonding authority, it can do so.

REPRESENTATIVE SEATON stated that the bill defines oil and gas processing as taking gas molecules out of oil. Additionally, it allows gas to liquid (GTL) by chemical conversion as opposed to phase conversion under liquefied natural gas (LNG). This would make GTL available, necessary due to emission control areas. Currently the state must import ultra-low sulphur diesel, but it can be made in Alaska. He pointed out one provision was added to SB 21 by the House Resources committee last year; however, it would have required a title change. Additionally, the bill duplicates the oil and gas [processing facility] tax credit section for construction or improvement of modules. This language was included in SB 21 and the tax credit duplicated in HB 230 to be sure the greatest opportunity for building modules is in the state. Thus, if modules are manufactured in Alaska the tax credit will apply. He offered to provide additional information on the service industry tax credit.

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REPRESENTATIVE JOSEPHSON asked whether the sponsor agreed with the addition of the tax credit language.

REPRESENTATIVE SEATON answered yes. He indicated that a portion targets Alaska jobs and provides an incentive for building the modules in Alaska. He pointed out that one smaller operator could have resulted in more oil in the pipeline if they could have obtained financing at commercially reasonable terms to build the facilities in the Matanuska-Susitna valley and truck them. He acknowledged a number of smaller outfits would be in line to put oil in the pipeline. He pointed out that processing facilities don't make money if the company is processing its own oil. Thus, it's not a profit center so it is more difficult on a business relationship to build processing facilities than it is for companies to undergo exploration.

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REPRESENTATIVE JOSEPHSON suggested that the tax credit is designated for smaller independents. He asked whether larger companies can use the credits.

REPRESENTATIVE SEATON answered that nothing limits the tax credits to smaller companies. He explained that these tax credits are not designed for projects the size of LNG plants. However, if there was the necessity for larger companies to renovate facilities they could approach AIDEA. Typically, the large producers generally have better access to capital than smaller outfits and AIDEA performs due diligence. He deferred to AIDEA with respect to due diligence.

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REPRESENTATIVE JOSEPHSON related his understanding that the conventional wisdom is that access problems for existing processing facilities are access problems for independents. It seems fairly circular. He said the controversy is whether the "big three" are allowing access so to allow them to benefit from the credit seems to exacerbate it.

REPRESENTATIVE SEATON clarified that this tax credit is not for production; instead it is a "qualified oil and gas service industry expenditure credit." The tax credits would apply if

molecules are built in Alaska instead of Japan. This credit is exactly the same as the credit approved in SB 21 to incentivize building facilities in Alaska, creating jobs in Alaska, and driving Alaska's economy. He said that the combination cannot exceed \$10 million a year. Thus, this provision does not provide an additional credit. In the event that SB 21 is repealed, it would still allow stimulation of Alaska hire and building modules in Alaska, he said.

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REPRESENTATIVE JOSEPHSON withdrew his objection. There being no further objection, Version U was before the committee.

REPRESENTATIVE CHENAULT commented that Representative Seaton is a man of many hats. He explained that in terms of access to facilities a limitation exists. He described the oil process, such that when a field is developed the initial oil wells produces significant oil, a little gas, and water. As time goes on, the percentages change, and sometimes wells can produce up to 95 percent water. He pointed out that sometimes even major oil companies are limited by the capacity of the facility itself and by composition changes as the wells age. He said that the facilities are expensive to build and operate and agreed that this bill is not a "bad" bill.

CHAIR OLSON acknowledged many people would agree with him.

[4:02:55 PM](#)

REPRESENTATIVE JOSEPHSON asked about the maximum tax credits.

TED LEONARD, Executive Director, Alaska Industrial Development and Export Authority (AIDEA), deferred to the expertise of the Department of Revenue (DOR) to respond the question.

[4:03:41 PM](#)

REPRESENTATIVE JOSEPHSON asked whether it would be at the discretion of AIDEA's board on whether to issue bonds.

MR. LEONARD misunderstood the question, noting he thought that he was asking about tax credits.

[4:04:21 PM](#)

REPRESENTATIVE JOSEPHSON wondered whether the financing was statutorily mandated or if the board meets. He acknowledged that the LNG trucking was mandated, but he was trying to understand whether this bill would operate under the AIDEA board's discretion.

MR. LEONARD responded that under AIDEA's current statutes, AIDEA invests in projects through direct financing or owning a portion of a project. The board goes through a due diligence phase and during the review process on projects decides what type of capital structure will work and if it will issue bonds for a project. Under the current statute anything over \$10 million is subject to legislative approval prior to the board issuing bonds. He explained that the authority by the legislature is not a mandate, but rather the legislature grants authority to issue bonds. The AIDEA still goes through its complete due diligence phase. Before AIDEA would issue bonds, the AIDEA board will first approve the project and per statute identify a finance plan to repay the bonds. In reality this bill would increase the authority to issue up to \$200 million in bonds, which avoids the necessity for AIDEA to request bonding authorization from the legislature every time the board might consider investing in a facility.

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REPRESENTATIVE JOSEPHSON said he was curious how generous the credits could become; however, he certainly liked the policy.

[4:07:56 PM](#)

REPRESENTATIVE JOSEPHSON asked how much the state would forego in taxing authority if the potential for tax credits were issued.

MATT FONDER, Director, Anchorage Office, Tax Division, Department of Revenue (DOR), admitted he has just seen Version U containing the tax credits this afternoon. He offered his belief that bonding and tax credits are separate issues. Proposed Sec. 2 and AS 43.20, the corporate income tax section, set forth a new credit for oil and gas processing facilities. He viewed the bonding and the tax credit as separate issues.

[4:08:54 PM](#)

REPRESENTATIVE JOSEPHSON asked if he could predict how many people could take advantage of these credits.

MR. FONDER answered that "at first blush" the way the language appears it could include any company with an oil and gas processing facility on the North Slope, any company that would like to build one, and any company working on an oil and gas processing facility. Thus, it could be an oil and gas producer or service provider on any of those facilities.

REPRESENTATIVE JOSEPHSON said he didn't know what the answer is but he thanked Mr. Fonder.

REPRESENTATIVE SEATON explained the tax credit mirrors existing law. He stated that SB 21 passed the legislature last year with this language - 10 percent of the qualified oil and gas service industry expenditures during the tax year or \$10 million, whichever is less. This bill includes language that this existing tax credit can't be combined. He reiterated that this is not a new tax credit; he just wanted to make sure that no matter what the outcome of the [upcoming] referendum is, that the tax credit to stimulate production of facilities in Alaska will remain the same and will remain in place.

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REPRESENTATIVE JOSEPHSON said that Representative Seaton was clear. He related his understanding that the projections by the Office of Management & Budget and DOR projects under SB 21 would continue regardless of the outcome of the August referendum.

REPRESENTATIVE SEATON answered yes.

[4:11:36 PM](#)

CHAIR OLSON said he would keep public testimony open.  
[HB 230 was held over.]

[4:12:05 PM](#)

The committee took a brief at-ease from 4:12 p.m. to 4:15 p.m.

**HB 300-AIR AMBULANCE SERVICES**

[4:15:33 PM](#)

CHAIR OLSON announced that the next order of business would be HOUSE BILL NO. 300, "An Act relating to air ambulance service providers, air ambulance membership agreements, and regulation of air ambulance service providers and air ambulance membership agreements by the division of insurance; and providing for an effective date."

[4:15:41 PM](#)

REPRESENTATIVE CATHY MUNOZ, Alaska State Legislature, as prime sponsor of HB 300, explained that this bill would allow popular air ambulance membership programs to continue serving Alaskan residents. She related a personal scenario in which her late father was medevaced from Juneau two years ago and it saved his life. These emergency transports are very expensive and can cost \$50,000 to \$100,000 per flight. The membership program allowed Alaskans to buy a membership, which served as the copay. If a person was medevaced and used primary insurance, the copay was waived if a person had a membership.

[4:17:00 PM](#)

CHAIR OLSON asked whether the membership would cover the entire amount if the person did not have insurance.

REPRESENTATIVE MUNOZ answered that the person would need primary insurance coverage in order purchase a membership.

[4:17:34 PM](#)

REPRESENTATIVE MUNOZ said she heard from 1,300 Juneauites who were participants of Airlift Northwest. She indicated that about three to four months ago, the Division of Insurance (DOI) ruled that Airlift Northwest could not provide the [insurance] service any longer since Airlift Northwest has specifically reorganized its company under the University of Washington's umbrella organization. In doing so, the program was no longer eligible under the DOI's licensing requirements. Again, she has heard from many constituents, of whom many are retirees worried about losing the membership plan. This bill will allow membership to continue. Passage of HB 300 would help 1,300 Juneauites, 460 individuals from Sitka, 450 from Wrangell, 330 from Ketchikan, and 200 in Petersburg. She explained the figures are from one company that provides medvac services, but there are other companies that can provide the service as well. She noted letters of support in members' packets from the Alaska Commission on Aging, the Southeast Alaska Fishermen's Alliance, and residents of Skagway, Juneau, Ketchikan, and Sitka.

[4:20:22 PM](#)

REPRESENTATIVE MUNOZ stated that she has worked with the sponsor in the Senate on a companion bill.

[HB 300 was held over.]

[4:21:40 PM](#)

The committee took an at-ease from 4:21 p.m. to 4:22 p.m.

**HCR 15-TASK FORCE ON UNMANNED AIRCRAFT SYSTEMS**

[4:22:43 PM](#)

CHAIR OLSON announced that the final order of business would be HOUSE CONCURRENT RESOLUTION NO. 15, Relating to the continuation of the Task Force on Unmanned Aircraft Systems.

[4:23:07 PM](#)

GINGER BLAISDELL, Staff, Representative Shelley Hughes, Alaska State Legislature, on behalf of the sponsor of HCR 15, Representative Shelley Hughes, explained that a legislative Task Force on Unmanned Aircraft Systems [task force] was formed under HCR 6 last legislative session to review regulations and guidance regarding unmanned aircraft systems [UAS] and to provide recommendations for a comprehensive state policy that protects privacy and allows for public and private operations. She said that most people are intrigued with unmanned aircraft, but most are concerned with privacy. The concept of unmanned aircraft is new and interesting, and each time the task force met, a new development occurred. Every instance and scenario was explored from the standpoint of how the use would happen and if the public was well protected. The task force decided that the instances were covered by statutes plus Alaska's Constitution has strong personal protection provisions. It isn't possible to determine how fast this industry is changing and growing. For example, the initial questions covered such items as search and rescue or wildlife management. She related that she receives unmanned aircraft system news. The military unmanned aircraft used for surveillance is approximately four feet wide, called a razor, and costs \$76,000. Today, a company printed a razor in one day using a 3-D printer and loaded it with android, and using free applications (apps), it can do the same business and costs \$2,000. The industry is changing fast, she said.

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MS. BLAISDELL stated that Dubai's [Mohammed Al Gargawi, Minister of Cabinet Affairs, at the Government Summit in Dubai in February 2014,] has offered a \$1 million award for anyone who can devise a use for unmanned aerial systems to improve government services. A sample video on the government website showed a lady in her home ordering her driver's license by

computer and an unmanned aircraft flies to her home. A fingerprint scan opens the door, she removes her driver's license, and the unmanned aircraft flies away.

[4:27:09 PM](#)

MS. BLAISDELL stated that the University of Alaska Fairbanks (UAF) engineering department created an unmanned aircraft that fits into the palm of hand. These unmanned aircraft can be as large as a 747 aircraft. She recently learned that two Global Hawks fly in the South Pacific to monitor weather patterns. Japan's [Defense Ministry reported that two American-operated Global Hawks will be deployed from May to October to the U.S. military facility at Misawa Air Base. The drones are used as a high-altitude, long-endurance platform for surveillance and security. They were used before in monitoring the Fukushima nuclear plants after the leakage in March 2011]. She noted that the Global Hawks are the size of 747s and the pilots operate them from California, and the drones are flown around Guam and Japan without the necessity of obtaining passports.

[4:28:13 PM](#)

MS. BLAISDELL said the task force was sensitive to privacy concerns especially surrounding law enforcement activities. She reported that HB 255 is currently before the House Judiciary Standing Committee and deals with law enforcement issues. It provides procedures, data retention, and community involvement. The task force has a limited scope, and this resolution, HCR 15, would extend the task force for three years until June 30, 2017, which also coincides with the UAF test site. Thus, when the UAF test site finishes its mission the task force will finish its work, as well.

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MS. BLAISDELL discussed the "whereas" section of the resolution, which lists all of the positives of using UAF. The UAF was selected by the Federal Aviation Administration as one of six test sites. She anticipated that this will result in a boom in business and industry growth as well as being on the forefront

of some policy decisions on how unmanned aircraft can be used in the U.S. The task force currently consists of seven members. This resolution requests the same seven members be retained and it adds two additional seats. The Department of Transportation & Public Facilities (DOT&PF), the Department of Law (DOL), and the Legislative Affairs Agency Legal Services thought it would be helpful, in particular, since the federal point of contact is with DOT&PF. The ninth position would be a public member since all other task force members had affiliation with aircraft use.

[4:30:51 PM](#)

REPRESENTATIVE REINBOLD asked whether the task force has been working with the Aerospace Board.

MS. BLAISDELL answered no. The task force originally had a board of 15-17 members, but it was cut to seven since it was a more manageable number, especially given any cost involvement. This resolution recognizes the need for a public position and DOT&PF position as the federal aviation connection.

[4:31:53 PM](#)

CHAIR OLSON asked whether the University of Alaska Fairbanks competes with the private sector.

MS. BLAISDELL deferred to the director of the test site [UAF Vice Chancellor Rosanne "Ro" Bailey, a retired Air Force brigadier general] to address the relationship.

REPRESENTATIVE REINBOLD said Ms. Bailey is highly knowledgeable on this subject.

[4:32:50 PM](#)

MS. BLAISDELL, referring to page 3, lines 2-14, which read, in part:

(3) evaluating complaints and concerns expressed to the task force;

- (4) identifying potential privacy problems associated with unmanned aircraft systems and determining whether legislation is necessary to address them;
- (5) considering recommendations for public education related to unmanned aircraft systems;

MS. BLAISDELL said that the "resolved" clauses add new duties and purposes of the task force. Resolve (3) would add language that allows the public, businesses and government an avenue to address their concerns. Right now there is nowhere for citizens to direct their concerns, she explained. The UAF doesn't typically receive comments that have little to do with the test site purpose, so the task force provides a central way for all citizens to participate. [Resolve (4)] "is to identify any potential privacy problems, and so it give the task force an opportunity to evaluate the concerns ... and see if we do need to makes some changes in statute." Resolve (5) relates to public education to help eliminate the fear, which generally develops with new technology, she said. Additionally, the task force can fulfill one of the duties of the UAF test site by conducting public meetings and receiving public comments. It also includes studying the issue and making recommendations to the legislature [paragraphs (7)-(9)], she said.

MS. BLAISDELL stated that these clauses provide a great opportunity for legislator involvement with professionals in the business. She asked members to consider this resolution "with a positive light."

[4:35:29 PM](#)

STEVE COLLIGAN, Member, Task Force on Unmanned Aircraft Systems, stated that he is in the mapping and technology business. He graduated from the UAF graduate program.

[4:36:42 PM](#)

CHAIR OLSON remarked that it isn't possible to hear the testifier due to the poor audio. He offered to place Mr. Colligan at the top of the list at the next hearing on HCR 15.

[HCR 15 was held over.]

[4:37:11 PM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:37 p.m.