

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

March 31, 2014

2:05 p.m.

**MEMBERS PRESENT**

Representative Eric Feige, Co-Chair  
Representative Dan Saddler, Co-Chair  
Representative Peggy Wilson, Vice Chair  
Representative Mike Hawker  
Representative Kurt Olson  
Representative Paul Seaton  
Representative Scott Kawasaki  
Representative Geran Tarr

**MEMBERS ABSENT**

Representative Craig Johnson

**COMMITTEE CALENDAR**

COMMITTEE SUBSTITUTE 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."

- HEARD & HELD

#### **PREVIOUS COMMITTEE ACTION**

BILL: SB 138

SHORT TITLE: GAS PIPELINE; AGDC; OIL & GAS PROD. TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/24/14	(S)	READ THE FIRST TIME - REFERRALS
01/24/14	(S)	RES, FIN
02/07/14	(S)	RES AT 3:30 PM BUTROVICH 205
02/07/14	(S)	Heard & Held
02/07/14	(S)	MINUTE(RES)
02/10/14	(S)	RES AT 3:30 PM BUTROVICH 205
02/10/14	(S)	Heard & Held
02/10/14	(S)	MINUTE(RES)
02/12/14	(S)	RES WAIVED PUBLIC HEARING NOTICE, RULE 23
02/12/14	(S)	RES AT 3:30 PM BUTROVICH 205
02/12/14	(S)	Heard & Held
02/12/14	(S)	MINUTE(RES)
02/13/14	(S)	RES AT 8:00 AM BUTROVICH 205
02/13/14	(S)	Heard & Held
02/13/14	(S)	MINUTE(RES)
02/14/14	(S)	RES AT 3:30 PM BUTROVICH 205
02/14/14	(S)	Heard & Held
02/14/14	(S)	MINUTE(RES)
02/19/14	(S)	RES AT 3:30 PM BUTROVICH 205
02/19/14	(S)	Heard & Held
02/19/14	(S)	MINUTE(RES)
02/20/14	(S)	RES AT 8:00 AM BUTROVICH 205
02/20/14	(S)	Heard & Held
02/20/14	(S)	MINUTE(RES)

02/21/14 (S) RES AT 8:00 AM BUTROVICH 205  
02/21/14 (S) Heard & Held  
02/21/14 (S) MINUTE(RES)  
02/21/14 (S) RES AT 3:30 PM BUTROVICH 205  
02/21/14 (S) Heard & Held  
02/21/14 (S) MINUTE(RES)  
02/24/14 (S) RES RPT CS 2DP 4NR 1AM NEW TITLE  
02/24/14 (S) DP: GIESSEL, MCGUIRE  
02/24/14 (S) NR: FRENCH, MICCICHE, BISHOP,  
FAIRCLOUGH  
02/24/14 (S) AM: DYSON  
02/24/14 (S) RES AT 8:00 AM BUTROVICH 205  
02/24/14 (S) -- MEETING CANCELED --  
02/24/14 (S) RES AT 3:30 PM BUTROVICH 205  
02/24/14 (S) Moved CSSB 138(RES) Out of Committee  
02/24/14 (S) MINUTE(RES)  
02/25/14 (S) FIN AT 9:00 AM SENATE FINANCE 532  
02/25/14 (S) Heard & Held  
02/25/14 (S) MINUTE(FIN)  
02/25/14 (S) FIN AT 5:00 PM SENATE FINANCE 532  
02/25/14 (S) Heard & Held  
02/25/14 (S) MINUTE(FIN)  
02/26/14 (S) FIN AT 9:00 AM SENATE FINANCE 532  
02/26/14 (S) Heard & Held  
02/26/14 (S) MINUTE(FIN)  
02/27/14 (S) FIN AT 9:00 AM SENATE FINANCE 532  
02/27/14 (S) Heard & Held  
02/27/14 (S) MINUTE(FIN)  
02/28/14 (S) FIN AT 9:00 AM SENATE FINANCE 532  
02/28/14 (S) Heard & Held  
02/28/14 (S) MINUTE(FIN)  
03/03/14 (S) FIN AT 9:00 AM SENATE FINANCE 532  
03/03/14 (S) Heard & Held  
03/03/14 (S) MINUTE(FIN)  
03/04/14 (S) FIN AT 9:00 AM SENATE FINANCE 532  
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03/05/14 (S) FIN AT 9:00 AM SENATE FINANCE 532  
03/05/14 (S) Heard & Held  
03/05/14 (S) MINUTE(FIN)  
03/05/14 (S) FIN AT 5:00 PM SENATE FINANCE 532  
03/05/14 (S) Scheduled But Not Heard  
03/06/14 (S) FIN AT 9:00 AM SENATE FINANCE 532  
03/06/14 (S) Heard & Held  
03/06/14 (S) MINUTE(FIN)  
03/07/14 (S) FIN AT 9:00 AM SENATE FINANCE 532  
03/07/14 (S) -- MEETING CANCELED --

03/10/14 (S) FIN AT 9:00 AM SENATE FINANCE 532  
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 03/11/14 (S) FIN AT 5:00 PM SENATE FINANCE 532  
 03/11/14 (S) Heard & Held  
 03/11/14 (S) MINUTE(FIN)  
 03/12/14 (H) RES AT 1:00 PM BARNES 124  
 03/12/14 (H) -- MEETING CANCELED --  
 03/14/14 (S) FIN RPT CS 6DP 1AM NEW TITLE  
 03/14/14 (S) LETTER OF INTENT WITH FINANCE REPORT  
 03/14/14 (S) DP: KELLY, MEYER, DUNLEAVY, FAIRCLOUGH,  
 BISHOP, HOFFMAN  
 03/14/14 (S) AM: OLSON  
 03/14/14 (S) FIN AT 9:00 AM SENATE FINANCE 532  
 03/14/14 (S) Moved CSSB 138(FIN) Out of Committee  
 03/14/14 (S) MINUTE(FIN)  
 03/14/14 (H) RES AT 1:00 PM BARNES 124  
 03/14/14 (H) <Pending Referral>  
 03/17/14 (H) RES AT 1:00 PM BARNES 124  
 03/17/14 (H) <Pending Referral>  
 03/18/14 (S) TRANSMITTED TO (H)  
 03/18/14 (S) VERSION: CSSB 138(FIN) AM  
 03/19/14 (H) READ THE FIRST TIME - REFERRALS  
 03/19/14 (H) RES, L&C, FIN  
 03/19/14 (H) RES AT 1:00 PM BARNES 124  
 03/19/14 (H) Heard & Held  
 03/19/14 (H) MINUTE(RES)  
 03/21/14 (H) RES AT 1:00 PM BARNES 124  
 03/21/14 (H) Heard & Held  
 03/21/14 (H) MINUTE(RES)  
 03/24/14 (H) RES AT 1:00 PM BARNES 124  
 03/24/14 (H) Heard & Held  
 03/24/14 (H) MINUTE(RES)  
 03/25/14 (H) RES AT 4:30 PM BARNES 124  
 03/25/14 (H) Heard & Held  
 03/25/14 (H) MINUTE(RES)  
 03/26/14 (H) RES AT 1:00 PM BARNES 124  
 03/26/14 (H) Heard & Held  
 03/26/14 (H) MINUTE(RES)  
 03/27/14 (H) RES AT 4:30 PM BARNES 124  
 03/27/14 (H) Heard & Held  
 03/27/14 (H) MINUTE(RES)  
 03/28/14 (H) RES AT 1:00 PM BARNES 124  
 03/28/14 (H) Heard & Held

03/28/14 (H) MINUTE(RES)  
03/31/14 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

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

**POSITION STATEMENT:** Answered questions on CSSB 138(FIN) am.

JOE BALASH, Commissioner  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions on CSSB 138(FIN) am.

SUSAN POLLARD, Assistant Attorney General  
Oil, Gas & Mining Section  
Civil Division (Juneau)  
Department of Law (DOL)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions on CSSB 138(FIN) am.

CHRIS POAG, Assistant Attorney General  
Labor and State Affairs Section  
Civil Division (Juneau)  
Department of Law (DOL)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions on CSSB 138(FIN) am.

KENNETH MINESINGER, Attorney  
Global Energy & Infrastructure Practice  
Greenberg Traurig LLP  
Washington, D.C.

**POSITION STATEMENT:** Speaking as a consultant to the Parnell Administration, answered a question during the hearing on CSSB 138(FIN) am.

BILL WARREN  
Nikiski, Alaska

**POSITION STATEMENT:** Testified on CSSB 138(FIN) am.

TOM PATMOR  
Clam Gulch, Alaska

**POSITION STATEMENT:** Testified on CSSB 138(FIN) am.

RICHARD FINEBERG  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 138.

LYNN WILLIS

Eagle River, Alaska

**POSITION STATEMENT:** Urged the committee to thoroughly vet SB 138.

CHARLES MCKEE

Anchorage, Alaska

**POSITION STATEMENT:** Testified on CSSB 138(FIN) am.

RICK ROGERS, Executive Director

Resource Development Council for Alaska, Inc. (RDC)

Anchorage, Alaska

**POSITION STATEMENT:** Supported the general premise of the provisions in CSSB 138(FIN) am.

GRETCHEN O'BARR

Wasilla, Alaska

**POSITION STATEMENT:** Testified in support of SB 138.

GEORGE PIERCE

Kasilof, Alaska

**POSITION STATEMENT:** Testified in opposition to SB 138.

LISA WEISSLER

Juneau, Alaska

**POSITION STATEMENT:** Testified on CSSB 138(FIN) am.

RACHAEL PETRO, President/CEO

Alaska Chamber of Commerce

Anchorage, Alaska

**POSITION STATEMENT:** Supported the principles in CSSB 138(FIN) am.

DON ETHERIDGE, Lobbyist

Alaska AFL-CIO State Federation

Juneau, Alaska

**POSITION STATEMENT:** Testified during the hearing on CSSB 138(FIN) am.

PAUL GROSSI, Lobbyist

Alaska State Pipe Trades UA Local 375; Ironworker Management Progressive Action Cooperative

Juneau, Alaska

**POSITION STATEMENT:** Testified during the hearing on CSSB 138(FIN) am.

## **ACTION NARRATIVE**

2:05:28 PM

**CO-CHAIR ERIC FEIGE** called the House Resources Standing Committee meeting to order at 2:05 p.m. Representatives Kawasaki, Hawker, Olson, Seaton, P. Wilson, Tarr, Saddler, and Feige were present at the call to order.

### **SB 138-GAS PIPELINE; AGDC; OIL & GAS PROD. TAX**

2:06:09 PM

CO-CHAIR FEIGE announced that the only order of business would be 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."

CO-CHAIR FEIGE invited the committee to address questions to the commissioners of the Department of Natural Resources (DNR) and the Department of Revenue (DOR) in relation to CSSB 138(FIN) am.

[2:06:53 PM](#)

REPRESENTATIVE HAWKER recalled that previous testimony from Commissioner Rodell on the state's debt capacity has been in the context of general obligation (GO) debt, without any discussion regarding revenue bonding debt. He asked if any bonding done by the state would be done on a GO basis.

[2:08:26 PM](#)

ANGELA RODELL, Commissioner, Department of Revenue (DOR), answered that it is not exclusive. She explained that GO bonds have a clear nexus to the state's debt capacity, but even issuing revenue bonds has a direct effect on the state's credit because the state's credit supports the revenue bonds in the form of sales contracts and commitments.

REPRESENTATIVE HAWKER understood that revenue bonding relies on the underlying revenue commitment of a project, and asked whether a scenario in which the state is both a sponsor of the project and, by owning a portion of the gas, is underpinning the financial resource, would disqualify a revenue bonding approach.

COMMISSIONER RODELL said no; however, it would be incumbent upon the state as to how and who issues the revenue debt that is supported by the state gas contracts. She said depending on how the debt structures are generated and created - even if the state itself issued the revenue bonds based on an appropriation commitment of some type - a structure that would be "one step below general obligation bonds" DOR believes could work, and the state would be able to gain the benefit of the revenue, in spite of dedicated funds strictures. The state should be able to create a mechanism, either through a leasing mechanism or other, which would allow the state to use the revenue to repay its participation in the project.

REPRESENTATIVE HAWKER inquired as to why the concept of revenue bonding has not been presented.

[2:10:23 PM](#)

COMMISSIONER RODELL responded that DOR has not examined GO bonding versus revenue bonding because the state holds great capacity. The further bonding is removed from the state's credit standing, the less of an impact bonding has on the debt. Thus, the most conservative approach is that the state will fully support the project with GO bonds; bonds of a lesser standing will increase capacity for the state. She advised that her previous presentations have addressed what DOR can do pledging the full faith and credit of the state, which is the most conservative presentation possible.

CO-CHAIR FEIGE asked at what point the state must firmly commit to one method of financing.

COMMISSIONER RODELL expressed her belief that as the state enters the pre-Front-End Engineering and Design (pre-FEED) stage, and considers entering contracts such as an equity option agreement, a partnership agreement, or a firm transportation [service] agreement (FTSA), and looks at costs, there will be better information as to the amount of the state's participation. However, the determination on financing is not necessary until the final investment decision (FID). Although some decisions will be made during the transition from pre-FEED into FEED, the state will not be in a position to issue debt because the state will not have a clear estimate of revenue to pledge to the project.

REPRESENTATIVE SEATON asked whether the state has information as to the "hurdle rate" the producers will use to determine the viability of a gas pipeline project.

COMMISSIONER RODELL indicated she did not.

[2:13:42 PM](#)

REPRESENTATIVE SEATON stated his concern is based on a presentation by Mr. Roger Marks [petroleum economist, contract consultant to Legislative Budget and Audit Committee, at the hearing on March 27, 2014] that at the low hurdle rate of 12 percent for a project costing \$65 billion, there is a \$17 breakeven point on gas. If so, the project is uneconomic, and there is no point in progressing with the project unless there

is something to gain. He suggested that if the producers in the future seek to export natural gas by sea, this project would have to be proven uneconomic; therefore, the state may be investing in a project that has a hurdle rate that will prevent it from completion and that provides no future benefit for the state, but that will provide a future benefit for the producers. He strongly urged for the state's consultants to reveal the information that is needed so that legislators are assured the state is directing its resources to a realistic project.

2:16:01 PM

JOE BALASH, Commissioner, Department of Natural Resources, acknowledged that some of information [requested by Representative Seaton] can found in the royalty study that examined liquefied natural gas (LNG) projects, such as what are typical returns. He referred to previous testimony from the producers that "LNG projects are small margin, but long-term cash generators, and that they provide an element of stability within the portfolio of their companies in the ways in which they generate revenue." He agreed that DNR is accustomed to "high teens and beyond for certain oil projects"; however, DNR is unprepared to provide a specific [hurdle] number [for LNG]. He offered to provide information from the royalty study to the committee, but pointed out that the key question on whether the project is economic will be answered by the terms of the sales and purchase agreements (SPAs). For that reason, the administration insisted on seeing commitment and progress in the Heads of Agreement (HOA) directing that gas marketing efforts will be initiated during the pre-FEED phase, because only through the marketing process will the level of support for the project become known.

REPRESENTATIVE SEATON restated that the consultants should be able to gauge "within a reasonable parameter" what kind of return the producers require around the world before projects are sanctioned. He restated his concern and opined the state's intention is for an in-state pipeline, and if this project is determined to be uneconomic that could be a precursor to a different project that has less value to the state. He encouraged the administration and the oil and gas consultants to work together to provide the legislature a hurdle rate and a breakeven point for this project.

2:20:30 PM

COMMISSIONER BALASH agreed. He pointed out that determining a hurdle rate begins with the cost of the project and DNR will use the total cost estimate of \$45 [billion]; in contrast, Mr. Marks began with a project cost of \$65 billion. In response to Representative Seaton, he said that estimate includes the LNG liquefaction plant.

CO-CHAIR FEIGE asked whether the state has determined its hurdle rate.

COMMISSIONER BALASH said the administration has considered analysis that led to the use of a common discounting rate of 10 percent; the state has also looked at the opportunity cost of capital which indicates 6 percent, and both rates have been factored in as the cost of capital to ensure that the state can clear its cost of capital. He cautioned that he would not characterize the given percentages as a hurdle analysis.

CO-CHAIR FEIGE agreed, adding that the state can also consider the overall benefit to its finances and its economy by simply going forward.

CO-CHAIR SADDLER asked Commissioner Rodell to comment on previous testimony expressing the view that a firm transportation commitment is tantamount to an obligation to the state for equity debt.

[2:23:53 PM](#)

COMMISSIONER RODELL disagreed, and explained that there are many contracts that create a long-term investment obligation to the state, but that are not debt. For example, long-term employment contracts related to the Public Employee Retirement System (PERS) and the Alaska Teachers' Retirement System (TRS) are not considered a liability of the state. In addition, the expectation is that the transportation costs in the FTSA's would be recovered in the sales contracts, thereby offsetting the costs.

REPRESENTATIVE SEATON said his impression is that bond rating agencies look at the PERS/TERS liability as part of the state's debt.

COMMISSIONER RODELL recalled at one time the unfunded [PERS/TERS liability] was not considered as debt at all; currently, it is included [in debt] in terms of understanding the state's overall financial position, but is not included in the debt capacity

calculations. This is a differentiation of types of obligations - between debt capacity or the state's financial position - and she asked for clarification of the question: If the question relates to debt capacity, it is not included; if the question relates to overall financial position and the state's obligations, an FTSA would be considered, "in light of the revenue that it also generates." Although an obligation, the FTSA's will have matching revenue.

[2:27:28 PM](#)

REPRESENTATIVE SEATON clarified that his question is focused on whether FTSA's change the financial position of the state and its bonding capability. The committee has been told by legislative consultants that the state's financial ability to borrow is impacted.

COMMISSIONER RODELL affirmed that the state will have the ability to borrow although its ability is impacted. One's financial position can be excellent and not be penalized for a tremendous amount of debt on a per-capita basis; one can also issue a lot of debt, have a weak financial position, and be penalized in one's credit rating. The state has worked hard to avoid debt and that - along with its resources and reserves - gives it management flexibility to "work over a volatile revenue system" and there is recognition that the state has taken financial measures to successfully manage its volatile circumstances.

REPRESENTATIVE TARR observed that all parties have opportunities to disengage from the project, and that the state has financial obligations should it withdraw. She asked if the state is financially obligated to TransCanada (TC) if one of the other three partners withdraws from the partnership.

[2:30:53 PM](#)

COMMISSIONER BALASH responded that the terms of the memorandum of understanding (MOU) [between TransCanada Alaska Company LLC, Foothills Pipe Lines LTD., TransCanada Alaska Development Inc., and the State of Alaska, dated 12/12/13] spell out the following circumstances: during pre-FEED, termination can be for any reason; during FEED phase, if one of the other parties terminates, so can the state, but with the obligation to repay TC's development costs and allowance for funds used during construction (AFUDC).

REPRESENTATIVE TARR posed a scenario where one of the producers terminates, but the state chooses to find another partner.

COMMISSIONER BALASH advised that the fundamental question is why one party withdraws: The reason may be based on an issue specific to the business condition of that party, or based on activities in the marketplace or the industry. At the risk of speculation, he suggested that if one party has a specific problem, the other parties would work to solve the problem; however, if there is a withdrawal "there's probably going to be a sorting-out period. How long that will be, is it going to be terminal? [It is] impossible to say at this point." Under that circumstance, the state would have the choice to maintain or terminate its shipping arrangement with TC, pay TC's development costs, and claim all of TC's equity rights in the project.

2:34:02 PM

REPRESENTATIVE HAWKER asked whether the administration still maintains its intent to incorporate firmer language in the MOU related to the exit from the Alaska Gasline Inducement Act (AGIA) [passed in the 25th Alaska State Legislature]. Also, during previous testimony before the committee on 3/28/14, Mr. Tony Palmer, Vice President, TC, stated that - regarding the exit from AGIA and entering a relationship with TC - the five-year tag obligation to allow TC to participate in a similarly situated project does not begin until the state has signed an FTSA. Representative Hawker said, "By passing the enabling legislation here, are you able to secure an exit from AGIA prior to signing that FTSA?"

COMMISSIONER BALASH said yes. He explained that upon passage of the enabling legislation and execution of the precedent agreement (PA), Commissioner Rodell and he would declare the AGIA project uneconomic in order to start a process - that is delineated in statute - whereby TC must respond with one of two alternatives: agree or contest. If TC contests the declaration, an arbitration process will follow. If TC agrees, the parties will finalize accounting and complete reimbursements. Thus, following the passage of the proposed bill in April, 2014, the state will complete and execute the PA and initiate the termination of the AGIA license. He concluded that this is "an action that Commissioner Rodell and I control." Commissioner Balash acknowledged there have been some questions raised about whether TC has fully committed to agreeing with the state that the project is uneconomic, considering the definitions for the "trigger event," and the execution of all of

the required agreements. The concerns about TC's willingness to agree with the state are understandable, but he pointed out that if the state executes the PA and declares the project to be uneconomic, in order to contest, TC would have to argue that a project overland to Alberta, Canada - that the other three producers are not a party to - is economic.

[2:39:13 PM](#)

REPRESENTATIVE HAWKER directed attention to the MOU, Recital 11, which read [original punctuation provided]:

The Commissioners have committed that after Enabling Legislation becomes effective and execution of the commercial agreements committing the ANS Producers to initiate the pre-FEED phase of the Alaska LNG Project, the Commissioners will initiate the process of making a determination for purposes of AS 43.90.240(a). Because it is not economically feasible that two large-scale pipeline projects will be developed concurrently to transport Alaska North Slope natural gas to market, the Commissioners have committed to consider the commercial agreements executed by and between the State, TADI and the ANS Producers for development of the Alaska LNG Project as material evidence that the Licensee's AGIA licensed project is uneconomic as provided in AS 43.90.240(a).

REPRESENTATIVE HAWKER stated after the enabling legislation becomes effective, the commissioners will initiate the process of exiting AGIA. He said the enabling legislation is limited to receiving authorization to negotiate and enter the transition agreements, authorization to negotiate and enter the termination agreements, and legislation that funds the state's contingent and direct obligations. Thus there is no obligation to complete anything, but simply to have received the authority. He then directed attention to the MOU, Recital 12 which read [original punctuation provided]:

The Licensee has committed that upon the occurrence of the Trigger Event and the execution of the Transition Agreements, the Licensee will agree that the project licensed under the AGIA License is uneconomic within the meaning of AS 43.90.240(a).

REPRESENTATIVE HAWKER said that the aforementioned recital sets out when TC agrees the project is uneconomic and adds the

occurrence of a trigger event - which is the enabling legislation - and the execution of the transition agreements. The transition agreements are the Alaska LNG Project Equity Option Agreement and the Alaska LNG Midstream Services Agreement, and he asked which one of these is the PA.

[2:40:41 PM](#)

COMMISSIONER BALASH answered that the PA is the Alaska LNG Midstream Services Agreement, which will be developed pursuant to Exhibit C to the MOU, and which is targeted for execution in the second quarter of 2014.

REPRESENTATIVE HAWKER, noting the discussion with Mr. Palmer related to this issue, said it is not clear that the state has the opportunity to terminate a relationship with TC and not incur the tag obligation until the FTSA is signed.

COMMISSIONER BALASH observed that the agreements are based on the law of general application, thus it is awkward to try and micromanage any further agreement. He opined the committee might seek to achieve clarification through intent language or an uncodified section; however, statements on record by Mr. Palmer, and the administration's understanding of the agreement and the process, alleviate the need for further clarification.

[2:43:32 PM](#)

CO-CHAIR FEIGE read Recital 12 [text found above]. He then directed attention to Article 1.1 Defined Terms of the MOU, paragraph (s) which read [original punctuation provided]:

**"Transition Agreements"** mean the Alaska LNG Project Equity Option Agreement and the Alaska LNG Midstream Services Agreement.

CO-CHAIR FEIGE then directed attention to Article 1.1 Defined Terms of the MOU, paragraph (e) which read [original punctuation provided]:

**"Alaska LNG Midstream Services Agreement"** means a Precedent Agreement (or similar agreement), and a Firm Transportation Services Agreement entered into between TADI and the State containing the terms set out in Exhibit "C".

and paragraph (g) which read [original punctuation provided]:

**"Alaska LNG Project Equity Option Agreement"** means an agreement to be entered into between TADI and the State containing the terms set out in Exhibit "B".

CO-CHAIR FEIGE concluded that the bulk of the agreements need to be signed before TC will declare AGIA uneconomic.

2:45:20 PM

COMMISSIONER BALASH understood the connection between the definitions, but advised that is not how the process will unfold, and there is a misunderstanding that the state needs to execute the FTSA right away. He assured the committee that the direction of the articles, timelines, and the terms in Exhibit C of the MOU make clear that the PA will be the instrument to govern pre-FEED. The FTSA is connected to FEED, and will be executed after the legislature has reviewed and approved it as part of the overall package of project-enabling contracts in late 2015 or 2016.

CO-CHAIR FEIGE surmised that the state is not out from AGIA until after that.

COMMISSIONER BALASH said he expected that the process for the release of the license will occur in June, 2014; the PA will be executed, the state will declare the project uneconomic, and TC will agree.

2:47:01 PM

CO-CHAIR SADDLER presented a scenario in which after the project is completed, there is an increase in in-state demand for gas. He asked how the additional demand would be met and how the regulatory process would ensure that the new customers would get a fair price.

COMMISSIONER BALASH explained that the process would depend on whether the gas comes from the north or the south. For example, additional gas to power a mine north of Fairbanks may or may not require additional compression if the gas is coming from the North Slope, but if more compression is needed, Appendix A, Pro-Expansion Principles of the HOA allows the state and/or TC to initiate an expansion and bear the resulting costs of construction. The transportation cost would be charged by TC. The price of the gas to consumers will depend on the terms of the sellers of the gas, and if it is legacy gas or newly-

discovered gas. He noted that the cause for concern is whether the cost of transportation is fair because "commodities are commodities." If North Slope gas becomes too expensive, Cook Inlet gas can be made available for consumers in the north through an arrangement of backhaul service, and a swap. Gas from the north will be taken off the pipeline for the mine at Fairbanks, and gas from Cook Inlet will be substituted at the southern end of the pipeline for delivery to the LNG plant. This would alleviate the need for compression or additional infrastructure although some allowances would be made. The agreement with TC is that TC would provide backhaul service, which will cost very little. The questions remaining are the costs of the transportation service and the cost of the commodity. If North Slope gas plus the transportation service costs more than the gas in Cook Inlet, Cook Inlet gas will be the means by which gas is priced and provided at points along the pipeline. However, if North Slope gas plus transportation is cheaper than Cook Inlet gas, the source of the supply will likely be the North Slope. He cautioned that the projected life of the project is 25 years; over time, the state will have contracted most of its proven resource from Prudhoe Bay and Point Thomson, and there may not be extra gas in the reservoirs, but with the infrastructure in place, and the expansion principles, DNR expects more gas to be found. For companies who discover a small amount of gas, likely markets will be in-state along the pipeline route. Only a large volume of gas will warrant a new LNG train at Nikiski.

[2:52:44 PM](#)

CO-CHAIR SADDLER restated his question:

I'm not sure how, in the absence of regulation ... you can guarantee or assure, assure the public that they won't be expected to pay extraordinarily high prices for gas should the demand exceed the initial capacity, initial commitments.

COMMISSIONER BALASH responded:

The question of where the gas comes from: Is it going to come from the state, or the other project sponsors, or will it come from third parties? It's not knowable today. As far as the state's ability to supply that need from the state's share of the gas, is going to depend upon a number of things.

COMMISSIONER BALASH continued to explain that the state's ability to supply gas will depend on the obligations the state has undertaken through a commitment to capacity in the infrastructure, and sales to customers. If the state needs to divert gas from customers, it may incur penalties depending on the terms of the SPA, which are unknown at this time.

CO-CHAIR SADDLER pointed out that there are provisions in Cook Inlet regulations that set out allowances for rates during situations of extraordinary demand. He asked whether an element to the agreement could be negotiated that the producers would be required to supply the needed gas, if the state could not.

[2:55:30 PM](#)

COMMISSIONER BALASH advised that the referenced regulations in Cook Inlet relate to the regulatory authorization to export gas. He suggested that this type of regulation would be a useful topic for the state and the other parties to discuss as part of the upcoming contracts.

REPRESENTATIVE SEATON turned to the question of why one of the parties would withdraw from the project. He asked whether DNR and DOR have considered the gas usage needed at the Kuparuk River Unit to fully recover the oil from the Kuparuk reservoir, and that a large amount of gas is required to recover viscous oil from deeper formations. He noted that ConocoPhillips Alaska, Inc. (ConocoPhillips) may not have enough gas to participate in the project and surmised the gas from the pipeline would be at a higher price to ConocoPhillips - which would be a situation similar to the impact of manufacturing costs on gas exports - and which may lead to the withdrawal of one of the partners.

COMMISSIONER BALASH opined this topic is laden with assumptions about a hypothetical situation. He said:

I think ultimately the question that you are hitting on is: At what point are the commercial needs of one going to be used to leverage the commercial options for everybody else? And that's something that is a concern to everybody in this agreement. We are, we are going to be engaged in a Mexican standoff for the next six years. But it's in everybody's interest to move this project forward and realize the benefits. ... I'm comfortable that all parties are motivated and aligned to see this resource commercialized in this

way. ... Do this project in a large way, efficiently, is going to maximize the value, not only for us, but also for the other parties.

COMMISSIONER BALASH continued, observing that geologically, as one moves west into the National Petroleum Reserve-Alaska (NPRA), the rocks are more gassy, thus the above referenced company will "have plenty of access to plenty of gas ...."

3:00:43 PM

REPRESENTATIVE SEATON recalled a legislative consultant suggested that the state should explore investing at project sanction because the state will not benefit from a project that does not go forward, but the preliminary work would lay a base for future development by the producers. As a matter of fact, investment by a sovereign at project sanction has been utilized around the world, and would reduce the risk of the state's investment benefitting other parties. He asked for comments.

COMMISSIONER BALASH acknowledged the aforementioned process is known as carrying the crown, because the [sovereign] is carried to the point of sanction and suffers no risk. In Alaska, the state's policies such as the Exploration Incentive Credit [corporate tax] program has exposed the state to certain risks, thus when considering the timing of the state's participation, the administration sought early participation during pre-FEED in order to ensure influence on the offtake point locations, and on a project design to accommodate expansions of the pipeline and of the liquefaction plant. These decisions are made largely during the pre-FEED phase. Although waiting until FID lessens risk on the development side, opportunities would be lost.

REPRESENTATIVE SEATON observed that all of the pipeline projects previously discussed have offtake points and are designed for future expansion if economically sound; he surmised the cost and risk reward ratio is not in the state's favor and requested additional written information for the purpose of making a decision.

3:06:02 PM

COMMISSIONER BALASH agreed to provide the requested information. He cautioned against "trust[ing] the companies to do everything that's right and best for us, or if we're supposed to be an owner-state and actually look out for our own interests ...."

The administration values being involved and having access when decisions are being made.

CO-CHAIR FEIGE added that if the state does not participate early with an investment commensurate with its equity position, the [producers] may not trust the state to invest at a later date, and the project may not go forward.

REPRESENTATIVE OLSON recalled the companies operating in Cook Inlet were successful during the winter because they worked on a consensual basis; when ENSTAR Natural Gas Company needed gas from Marathon and ConocoPhillips, approvals were granted by a phone call due to their long-term relationship. He advised that putting too much information in contracts is similar to overregulation by the Regulatory Commission of Alaska (RCA). He expressed his hope that there is "a little leeway between the willing sellers and willing buyers on how they can handle a stress situation like that."

[3:09:08 PM](#)

COMMISSIONER BALASH said he concurred with the claim that overregulation almost killed Cook Inlet.

REPRESENTATIVE HAWKER restated his concern about ambiguities between the MOU and testimony heard by the committee. He returned attention to the MOU Article 1.1 Defined Terms, paragraph (s) [text found above], and paragraph (r) which read [original punctuation provided]:

**"Precedent Agreement"** means the precedent agreement referred to in Alaska LNG Midstream Services Agreement Term Sheet attached hereto as Exhibit "C".

REPRESENTATIVE HAWKER stated that Exhibit C is a term sheet for negotiating and entering into a PA. In his experience, when doing project work, a term sheet is signed first. The way this is defined is that withdrawing from AGIA requires the execution of the transition agreements, which are the "term sheet and the Project Equity Option Agreement," and he remarked:

That's when the licensee is supposed to agree that the project license under AGIA is uneconomic. There is a big difference between signing the term sheet, executing the midstream options agreement and executing the precedent agreement that is referred to in that term sheet.

3:11:21 PM

COMMISSIONER BALASH responded that the MOU is the term sheet that has already been executed; however, the PA that will be drafted and executed, consistent with the term sheet and the enabling legislation, is scheduled to be completed in June, 2014.

REPRESENTATIVE HAWKER surmised there is a requirement for the PA to be executed. He asked whether Mr. Balash's earlier reference to "uneconomic" was to the "Canadian line ... or are we talking about the line, the AGIA project as the project plan amendments have been executed that is no longer contemplating a Canadian option."

COMMISSIONER BALASH advised that a review of the correspondence between the licensee and the commissioners would reveal that both parties sought not to change the project for the purpose of the license. In fact, the project remains the project to Alberta, and that would be the project determined to be economic or uneconomic in the termination event. He offered to prepare a clarifying side letter.

CO-CHAIR SADDLER referred to [an unidentified document] and read, "The State of Alaska can exercise its equity option buyback at the earlier of December 31st, 2015 or the execution of the contracts, sign the contracts." He asked if the aforementioned timeline provides sufficient information to decide whether or not to buy 40 percent.

3:14:37 PM

COMMISSIONER BALASH responded that the timing is expected to place the state in a better position to evaluate that question. The pre-FEED process will be largely complete, and marketing discussions will have taken place in 2014 and 2015. In addition, information on interest rates will be available, and the project-enabling contract process will be back before the legislature in late 2015.

CO-CHAIR SADDLER then asked whether there should be a mechanism in the agreement to delay the deadline for executing the buyback position.

COMMISSIONER BALASH cautioned that the additional amount of time would be gained for a cost in negotiations.

3:16:40 PM

REPRESENTATIVE HAWKER directed attention to CSSB 138(FIN) am, Sec. 31.25.120. Creation of subsidiaries which read:

**Sec. 31.25.120. Creation of subsidiaries.** The corporation may create subsidiary corporations for the purpose of developing, constructing, operating, and financing in-state natural gas pipeline projects or other transportation mechanisms; for the purpose of aiding in the development, construction, operation, and financing of in-state natural gas pipeline projects; or for the purpose of acquiring [THE STATE'S ROYALTY SHARE OF NATURAL GAS,] natural gas from the North Slope, and natural gas from other regions of the state, including the state's outer continental shelf, and making that natural gas available to markets in the state, including the delivery of natural gas, including propane and other hydrocarbons associated with natural gas other than oil, to coastal communities in the state, or for export. **Subject to the limitations for the use of money appropriated to the in-state natural gas pipeline fund (AS 31.25.100) and the Alaska liquefied natural gas project fund (AS 31.25.110),** the [A SUBSIDIARY CORPORATION CREATED UNDER THIS SECTION MAY BE INCORPORATED UNDER AS 10.20.146 - 10.20.166. THE] corporation may transfer assets of the corporation to a subsidiary created under this section. A subsidiary created under this section may borrow money and issue bonds as evidence of that borrowing and has all the powers of the corporation that the corporation grants to it. Unless otherwise provided by the corporation, the debts, liabilities, and obligations of a subsidiary corporation created under this section are not the debts, liabilities, or obligations of the corporation.

REPRESENTATIVE HAWKER stated that following House Bill 4 [passed in the 28th Alaska State Legislature] differences arose between DOL, counsel for the Alaska Gasline Development Corporation (AGDC), and legislative counsel. The original intent was to authorize AGDC to create subsidiaries as needed, but DOL interpreted the law that AGDC could only incorporate subsidiaries under the Alaska Nonprofit Corporation Act. The bill attempts to establish clarity that AGDC's authority is not

restricted, and he stressed the intent of the language in the bill is to grant AGDC the widest possible latitude in creating subsidiaries as they are needed, and that the subsidiaries may be either for-profit, or nonprofit.

[3:18:54 PM](#)

COMMISSIONER RODELL agreed that the intent of the language is to grant AGDC the authority to create a subsidiary for the state's purpose.

CO-CHAIR SADDLER asked how the administration weighed the potential cost benefits of accepting the "breakup" with TC versus taking the time and money to renegotiate for better terms.

COMMISSIONER RODELL explained that she looked at financing opportunities, relevant information, and the state's past efforts so far to commercialize North Slope gas. In addition, she explored whether the state has the human resources to proceed to the project, and the value of the financial relationship with which TC was willing to commit. In theory, the state could bring in an independent pipeline company, but then would lose the value of TC's knowledge, experience, and human capital resource that cannot be underestimated. In further response to Co-Chair Saddler, she pointed out that the AFUDC portion of the project during pre-FEED is estimated at \$6 million, and the state does not have the capability to build equal infrastructure for an equal appropriation, thus this value is not overestimated.

[3:22:25 PM](#)

COMMISSIONER BALASH agreed, adding that TC is more than a bank in this context. When the administration first looked at the benefits of state participation it assumed TC would invest a small percentage; however, ultimately TC's percentage was increased to provide human capital and expertise. In addition, TC was prepared to deliver sufficient value to the state and its commitment to a capital structure of 75 percent debt/25 percent equity for the ratemaking purposes of the tariff is not seen often, and was a key factor. Typically, when pipeline companies charge a lower "equity number" it is related to existing pipelines or those under expansion. He recalled that the Federal Energy Regulatory Commission (FERC) certificated terms on new construction were provided to the committee, revealing the best ratio was 60 percent debt/40 percent equity. There are

also examples of higher than 12 percent return on equity (ROE). Although these examples are not the best comparison, the administration's consultants provided additional information specific to LNG projects that showed a broad spectrum of terms, without an international norm or standard to follow. Finally, when considering the size, scale, capital structure, and ROE of the project, the state is in a good position. Conversely, if the state uses a competitive process, only three or four pipeline companies in North America have the technical experience and financial capability to bid, and he asked, "If you tweak one little term, how much do you improve the state's bottom line?" He concluded that this is a fair deal for the state, and the opportunity to improve the terms is somewhat limited.

[3:29:51 PM](#)

CO-CHAIR FEIGE observed that as the project proceeds through pre-FEED, the negotiated contracts will return to the legislature for approval. He asked whether they will be submitted all at once, and how much time the legislature will have to consider the contracts.

COMMISSIONER BALASH expected that the DNR [evaluation of proposals for the disposition of royalty oil] will come before the legislature, together with the contracts, in a comprehensive way. During the royalty oil disposition process there will be a public notice and comment period, followed by a review and a recommendation by the Alaska Royalty Oil and Gas Development Advisory Board, a final finding from the commissioner, and the introduction of legislation to approve the disposition agreement. Although some longer timelines will be needed the [legislative] committees will be briefed in executive sessions.

REPRESENTATIVE HAWKER directed attention to section 61 of the bill which read:

**\* Sec. 61.** The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITION: REGULATIONS. The Department of Revenue and the Department of Natural Resources may adopt regulations to implement this Act. The regulations take effect under AS 44.62 (Administrative Procedure Act), but not before the effective date of the provisions of this Act being implemented.

REPRESENTATIVE HAWKER clarified that AGDC would be adopting the regulations and DOR and DNR would not adopt regulations on behalf of AGDC.

COMMISSIONER RODELL deferred to the Department of Lqw.

[3:34:17 PM](#)

SUSAN POLLARD, Assistant Attorney General, Oil, Gas & Mining Section, Civil Division (Juneau), Department of Law (DOL), explained that the section contains typical transitional language to allow agencies to begin the regulations process prior to the effective date of the statute because regulations cannot become effective until after the enabling statute becomes effective. There is no intent that DOR or DNR would adopt regulations for AGDC; in fact, AGDC has its own regulations outside of the Alaska Administrative Procedure Act.

REPRESENTATIVE HAWKER recalled suggestions from outside legal counsel related to tax and antitrust statutes, that the state clarify that AGDC is a political subdivision and to obtain a private letter ruling [from the Internal Revenue Service (IRS)]. Also, House Bill 4 included language that the debts of AGDC are not the debts of the state, which could be used to imply that AGDC is not a political subdivision of the state. He asked if the administration was in agreement with the aforementioned suggestions and whether an amendment was needed for clarification of AGDC's tax exempt status.

COMMISSIONER RODELL deferred to DOL. Clearly, the administration does not intend that AGDC removes the sovereign authority of the state to tax.

REPRESENTATIVE HAWKER restated his question.

[3:39:01 PM](#)

CHRIS POAG, Assistant Attorney General, Labor and State Affairs Section, Civil Division (Juneau), Department of Law (DOL), pointed out that the subject is future income that may be earned by a public corporation, and he opined that the tax issue would arise when the state decides if the investor is the state. If that is the case, it has been long established by IRS that the state would not be taxed. However, if the income is earned by another entity such as AGDC, the legislature would want to engage with tax counsel on the various tax-exemption options. For example, if state earns the income - or if the entity is

considered to be an integral part of the state - there is no tax issue. Furthermore, IRS has ruled that a political subdivision is also given the statutorily-applied immunity. Sovereignty has three attributes: taxation, eminent domain, and police power, thus these attributes would have to be established in AGDC as well as that it is an integral part of the state. If that failed, Sections 115 or 501(c)(3) of the Internal Revenue Code would be utilized. Although "a little bit premature at this point in terms of the enabling legislation," tax issues are important and if AGDC becomes the investor, a private letter ruling may be sought. Regarding the need for a specific amendment, he advised that IRS is not concerned with labels; more importantly, the Alaska Supreme Court has ruled that public corporations must be in a department within the executive branch of government, and because Alaska does not have political subdivisions in state agencies, "It would be a little odd, I think, to suggest that AGDC is a political subdivision under state law." Mr. Poag agreed that language to clarify that debt issued by AGDC cannot be considered debt of the state may be warranted, but cautioned against declaring AGDC to be a political subdivision of the state. In further response to Representative Hawker, he confirmed that changes are not necessary.

[3:44:33 PM](#)

REPRESENTATIVE TARR asked whether there is an established process related to how profits earned by AGDC or a subsidiary flow back to the state.

MR. POAG said the income would be considered a source of state revenue to the general fund absent an implied exemption.

[3:45:52 PM](#)

COMMISSIONER RODELL added that this issue is clarified in section 1, paragraph (5) of the bill which read:

(5) advance an Alaska liquefied natural gas project by developing infrastructure and providing related services, including services related to transportation, liquefaction, a marine terminal, marketing, and commercial support; if the corporation provides a service under this paragraph to the state, a public corporation or instrumentality of the state, a political subdivision of the state, or another entity of the state, the corporation may not charge a

**fee for the service in an amount greater than the amount necessary to reimburse the corporation for the cost of the service;**

COMMISSIONER RODELL explained the language makes clear that the intent of AGDC is to provide certain services to the state and that its income flows to the state.

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REPRESENTATIVE TARR surmised that the bill was changed to allow a subsidiary under a limited liability company (LLC) become a taxing entity. Under this circumstance, she asked how the financial relationship between the state, AGDC, and a subsidiary that is not tax-free, would work.

MR. POAG responded that if AGDC created an LLC, that is a pass-through entity, thus the income would still be earned by AGDC. He urged for AGDC to ensure that if its subsidiary were an income-earning entity, it would be a pass-through entity so that AGDC would qualify for the tax exemption, or that the entity does not have income consequences. On the other hand, a subsidiary for the purpose of issuing debt would be set up differently than one for holding an investment. He concluded that each business entity would have to be considered in the light of its potential uses and risks.

REPRESENTATIVE TARR returned attention to section 1, paragraph (5) and asked whether it is necessary to consider adding language to the bill, "that makes those relationships more clear or, ... under other scenarios where those subsidiaries might have a different corporate structure, ... are there unforeseen things that could happen that we would want to be aware of right now?"

[3:49:13 PM](#)

MR. POAG said Representative Tarr raised a policy, business-judgment question, more than a legal question. He remarked:

Certainly, if the legislature wanted to provide clarity and say now the types of structures that can be utilized, that would provide that direction. Of course it comes at the expense of allowing the entity to choose the structure that's most appropriate for the particular project. ... This construct clearly

gives that discretion to AGDC to discern what is the best structure to utilize.

CO-CHAIR SADDLER referred to the antitrust tax concerns raised in a letter from consultants Baker & Miller to the Legislative Budget and Audit Committee, dated 3/23/14. He asked whether it is necessary for the state to protect itself by including language in the bill that the state declares that the passage of this bill, and the implementation of the MOU, represent the state's intent to displace the role of competition in the development and marketing of North Slope gas.

MR. POAG deferred to Mr. Minesinger.

[3:50:56 PM](#)

KENNETH MINESINGER, Attorney, Global Energy & Infrastructure Practice, Greenberg Traurig LLP, provided a brief background of his work on this project dating back to 2005, and other oil and gas consulting. Regarding the memo from Baker & Miller, he opined Baker & Miller are in favor of the general structure established by the HOA related to expansions and from an antitrust perspective. Baker & Miller recommended clarification on the state's intent to displace competition and qualify AGDC, or the project, for state action immunity under the antitrust laws. Mr. Minesinger agreed with the recommendation in general, but he said he would need to review specific changes to the legislation.

REPRESENTATIVE SEATON observed that as the AGIA licensee, TC was responsible for securing the FERC license and all of the other functions; however, under the proposed system, TC is not employed as the pipeline developer, but as the representative of the state's equity stake in the pipeline. He remarked:

I guess I want to make sure that the contribution[s] that the other parties are making to the pipeline development are to TransCanada as well. If we're calling them the pipeline company, and not just the State of Alaska through transfer of equity share bringing them in and paying them, and the other parties participating in other ways, but not similar payment structure to a pipeline company, because no longer are they a separate pipeline company, they're part of us. And so I'm concerned that we have this inequitable contribution into TransCanada which no

longer fulfills the same role that they assumed under AGIA.

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COMMISSIONER BALASH advised that there may be some confusion about the terms of the agreement. The project is a joint venture; a new company - populated by representatives of each of the sponsors - will be formed to build the pipeline. The new joint venture company will build the project and TC will bring its pipeline expertise to the venture. Regarding the allocation of costs, he assured the committee that the costs will be split fairly and proportionally to each party's respective interest in the gas. The state's interest will be determined by the tax rate set in the proposed legislation. Later in the project, the costs incurred by the joint venture will be billed out to the sponsors and the state will be watching to ensure that the state pay only its 25 percent. TransCanada's role with the state will be in the ordering of the payments during construction. TransCanada's share, or its share on the state's behalf, will dictate the payment schedule during those years. Ultimately, at operation, the benefits of TC's ability to find additional business and new customers for state gas will pay big dividends.

[3:59:04 PM](#)

REPRESENTATIVE SEATON noted that previous testimony before the committee raised the possibility of using Alaska Railroad Corporation (ARRC) bonds to secure AGDC debt. He asked whether DOR is considering using tax-exempt ARRC bonds - and seeks a private letter ruling from IRS - for this project.

COMMISSIONER RODELL said DOR is not seeking a private letter ruling on ARRC bonds at this time. There is concern whether this project would qualify, or receive a favorable IRS ruling, due to the differences between the Alaska LNG Project and the Alaska Stand Alone Pipeline (ASAP). Firstly, the ASAP project is solely an in-state pipeline, and the Alaska LNG Project is an export project that will benefit three private companies. In addition, tax exemptions are presumed to benefit the public good, and although the state's participation is for the public good, the project overall is to sell gas primarily to overseas markets in order to make a profit. She said there is a "huge risk" of not getting an affirmative opinion from a private letter ruling. Secondly, there are no provisions in statute for DOR to issue bonds through ARRC. Commissioner Rodell stressed the difference nature of the two gas pipeline projects.

REPRESENTATIVE OLSON returned to the possibility of obtaining a private letter ruling from IRS on whether AGDC qualifies for tax exemption. He surmised it takes one to two years to receive a private letter ruling.

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COMMISSIONER RODELL opined the state does not need a private letter ruling for AGDC's participation in the Alaska LNG Project. Receiving a private letter ruling on tax exemption can take a long or a short period of time; generally, an entity wants to be confident of the outcome of the ruling and prepared to deal with the consequences. In further response to Representative Olson, she said a private letter ruling will not be requested during the pre-FEED period. In response to Co-Chair Feige, she confirmed the request would be prior to FID.

CO-CHAIR SADDLER asked whether an adverse ruling is a potential detriment to ARRC's bonding authority on other projects.

COMMISSIONER RODELL said ARRC has clear authority to issue debt through state statute.

CO-CHAIR SADDLER inquired as to whether FERC's authority to regulate includes the transportation, shipping, storage, and treatment of LNG, and "how broad is the potential scope of FERC regulation?"

[4:06:40 PM](#)

MR. MINESINGER said the relevant provision in the [Natural Gas Act, 15 U.S.C. § 717b (NGA)] has not been fully interpreted by FERC. It is clear that FERC has exclusive jurisdiction to regulate the LNG liquefaction plant; however, jurisdiction over the regulation of the rates and services of the pipeline and the gas treatment plant (GTP) has not been resolved. The definition of an LNG terminal in the NGA refers to liquefaction and transportation to the terminal, but it is debatable whether the intent was to "sweep in an 800-mile pipeline as part of FERC regulation of the LNG terminal itself." He concluded that there is a lack of clarity on how far FERC regulation extends upstream of the liquefaction terminal.

CO-CHAIR SADDLER asked when and how this issue would be addressed.

MR. MINESINGER referred to the HOA, ARTICLE 6: REGULATORY FRAMEWORK, ACCESS AND EXPANSION. Article 6.2 read [original punctuation provided]:

During Pre-FEED, the Alaska LNG Project will be advanced under NGA Section 3.

MR. MINESINGER explained that during pre-FEED the project will be advanced under Section 3 of the NGA and the parties will engage with FERC staff to discuss jurisdiction over the pipeline and GTP. Of special interest are the commercial terms reflected in the HOA, including the ability of the state to provide access to third parties and the ability of any of the parties to undertake an expansion of the project. As provided in the HOA, this could occur during pre-FEED by informal discussions or by a formal petition for declaratory order from FERC. He estimated FERC's written response to a petition would take a few months.

[4:10:44 PM](#)

REPRESENTATIVE TARR returned to the subject of revenue, noting that previous testimony has suggested that the state will likely want to engage more partners during the terminal, liquefaction, and marketing phases of the project. Although it is clear AGDC and its subsidiaries are limited to only paying expenses, she asked how the state will evaluate the revenue impact other future commercial partners may have on the state's annual revenue.

COMMISSIONER RODELL said the impact on revenue will be determined on a case-by-case basis. After pre-FEED, the state's participation will be better known because after the marketing process begins, buyers will bid on the state's gas and will be interested in having an equity position in the project. These offers will be evaluated in the context of the overall sales agreements, which will come back before the legislature for approval. At that time, the administration will provide the terms of the sales agreements, the benefits of bringing in new participation in the project in terms of revenue to the state, and the costs. She advised that if the cost of the prospective participant "well-exceeds" what it is willing to pay for the gas, there is no benefit to the state to pursue a partnership.

REPRESENTATIVE TARR asked whether is there a [financial] point that determines the project is "no longer worth it to the state because the reduction to the annual revenue would be so great."

[4:14:19 PM](#)

COMMISSIONER RODELL was unwilling to commit to a certain level given the possibility of other factors. For example, a potential partner may be willing to provide in-state gas even though the revenue to the state in the partnership agreement is low. Also, in the case of a partner such as the Alaska Permanent Fund Corporation, the administration may be willing to make concessions.

REPRESENTATIVE SEATON asked a question to be addressed by the commissioners at the meeting on 4/2/14. He observed that oil tax fiscal certainty is not a term to be negotiated in the contract; however, gas development credits may offset oil tax revenues. He asked for the maximum amount of credits for lease expenditures over the next several years, and the possible liability to the state.

[4:16:27 PM](#)

The House Resources Standing Committee meeting was recessed at 4:16 p.m., to be continued at 6:00 p.m.

[6:04:36 PM](#)

CO-CHAIR FEIGE called the House Resources Standing Committee back to order at 6:04 p.m. Present at the call back to order were Representatives Hawker, Olson, Tarr, Seaton, P. Wilson, Kawasaki, Saddler, and Feige.

[6:04:40 PM](#)

CO-CHAIR FEIGE opened public testimony on CSSB 138(FIN) am. He informed the committee additional written testimony was included in the committee packet.

[6:05:42 PM](#)

BILL WARREN informed the committee he is a 60-year resident of Alaska, expressed his long interest in an in-state gas pipeline, and supported the involvement of the Alaska Gasline Development Corporation. However, in-state gas for residents outside of Anchorage seems to be an afterthought, and he questioned the project's alignment with Alaskans. He said in-state gas is more important than exporting LNG to China because Alaska needs cheap energy in order to prosper, which can happen with a small bore line from Prudhoe Bay to Fairbanks, and the big line can wait

for the future. He strongly urged for two pipelines with one being a small in-state gas pipeline that could be financed with Alaska Railroad Corporation bonds, regulated by the Regulatory Commission of Alaska, and which would go directly to downtown Fairbanks with no need for offtake ports. The pipeline could provide natural gas and propane for small businesses and for residents. Mr. Warren noted that this has been a problem for 60 years and urged for action on the in-state gas pipeline. He said he was glad that the House Resources Standing Committee is thoroughly vetting this project.

REPRESENTATIVE OLSON asked about an ongoing project in Nikiski.

MR. WARREN said Hillcorp has increased production, but has not alleviated the need for in-state gas to help Cook Inlet establish a market for natural gas and reopen the LNG plant. He pointed out that a lot of the activity was in search of oil. There are two jack-up rigs that "[are] a start."

[6:11:44 PM](#)

TOM PATMOR provided a brief personal history of his experience in the oil and construction industries. He said oil companies are disreputable and not to be trusted and gave several examples. If the 800-mile pipeline does not get built, he suggested building a pipeline across the Alaska Peninsula because LNG tankers could ship from Prudhoe (Bay) to Naknek and there would be 300 miles of pipeline that would only cross one river. Mr. Patmor reminded the committee the Trans-Alaska Pipeline System (TAPS) was to cost \$905 million, but cost over \$8 billion, which was a tenfold increase in cost.

[6:16:38 PM](#)

RICHARD FINEBERG said a North Slope natural gas pipeline is a mistaken and risky venture, and the state should instead focus on continued oil development. He provided ten reasons to vote against SB 138 and keep the successful Alaska's Clear and Equitable Share (ACES) [passed in the 25th Alaska State Legislature] tax regime: 10) previous attempts to build a natural gas pipeline have failed; 9) the production of LNG is doomed because the economy of scale has been reduced without reducing cost; 8) the LNG project is unwise due to its high cost; 7) confusing testimony by consultants before the House and Senate; 6) natural gas is undesirable compared to oil; 5) questions regarding the administration's credibility; 4) questions regarding the oil companies' veracity; 3) oil

companies' profits prove that Alaska's current tax regime does not need an overhaul to assure production; 2) profits from North Slope production under ACES prove its value to investors; 1) North Slope profits despite declining production indicate the oil industry uses highly misleading tactics. To avoid repetition, he said, he stood by his testimony that he has given at previous hearings. Documented and graphic support for his observations can be found on his web site and in written testimony submitted to the committee. He concluded that the industry creates a misleading impression that industry net revenues decline when oil prices rise from \$80 per barrel to \$130 per barrel, but the opposite is the case. Mr. Fineberg noted that his figures have not been disclaimed by the industry. He suggested the present political system enables "tall tales to triumph."

[6:24:16 PM](#)

REPRESENTATIVE TARR asked Mr. Fineberg to provide written testimony.

MR. FINEBERG agreed to send further information on a ruling by FERC Administrative Law Judge Cintron.

[6:27:24 PM](#)

LYNN WILLIS paraphrased from a written statement as follows [original punctuation provided]:

I am a residential consumer of Natural Gas representing myself. I am extremely leery of this Legislation and I believe, based on our track record regarding gas supply, I have good reason to be so. I urge you to thoroughly vet this legislation before passage.

I have listened to the testimony regarding SB138. I am impressed with the analysis and your questions. Thank you for inviting testimony that was not invited by the Senate.

I am sure you have hired the best and the brightest consultants to evaluate this proposition; however, didn't you do that with AGIA? Now six years later after creation of AGIA with over 300 million dollars gone from the state treasury and with at least 130 million more owed to Trans Canada we have neither an inch of pipe purchased nor any application from any

producer to AOGCC for release of a single molecule of gas.

My concern is about domestic supply of energy for Alaskans including natural gas. The Alaska State Government has yet to create a comprehensive energy plan that would identify the primary source of renewable and non-renewable energy for each region of the state for electrical generation, space heating, vehicle mobility, local industrial production and energy resources for export. This failure to have a comprehensive plan results in what we see currently as we purchase study after study and/or expend state revenue in a seemingly endless pursuit of the next best idea.

We have spent how much on the "Cook Inlet Renaissance" for supply contracts through 2018? We have spent how much on the AGDC/ASAP project which now seems about to be abandoned for this AKLNG project. AGIA is still restricting volume limits for the AGDC/ASAP project. We won't even consolidate our natural gas demands in the rail belt region as we pursue trucking LNG into Fairbanks. Aren't we now competing with the Cook Inlet gas producers and haven't we created the almost unbelievable situation where, to various degrees, we are expending state funds to pay for three pipe line efforts at the same time (AGIA, AGDC/ASAP, and AKLNG). If the House emulates the Senate, this Legislation will become law. Soon we will be in pre-election pre-feed and once again hopes of Alaskans will rise.

I ask you to not restrict yourselves to a specific time limit to vet this legislation. If for no other reason you should be extremely cautious in your deliberations because we are now in deficit spending. I would like to remind you that we live in a sovereign not an investment bank.

As you proceed toward passage of SB 138 please reflect on testimony from Professor Emeritus Scott Goldsmith who has long been associated with the University of Alaska Institute of Social and Economic Research (ISER). Professor Goldsmith was testifying as a private citizen on March 25th (at 73:10) before Senate Finance. At that hearing, Professor Goldsmith stated that we are now drawing down our cash reserves at a rate of about 7 million dollars per day.

At that rate of spending we will soon enough not be able to afford business as usual in State Government including passing legislation that might cost us

millions of dollars just for testing the viability of the AKLNG project as currently envisioned. We need to learn as much as we can, including exploring our options, before passage of SB 138. Thank you.

6:30:45 PM

REPRESENTATIVE OLSON noted three or four of the committee members voted against ACES and AGIA.

6:31:39 PM

CHARLES MCKEE said he was a resident of Alaska since 1967 and took part in the oil pipeline primarily in Valdez. At that time it was possible to bring propane to tidewater, and he related that he saw the propane pipe and model "being unpacked, photographed, and then destroyed." He gave a brief history of his experience with the Resource Development Council for Alaska, Inc., the administration of former Governor William Sheffield [1982-1986], and the oil and gas industry. In regards to the Alaska LNG project, he said he was in favor of small and large projects and urged the committee to maintain the virtue of individuals, which is something corporations lack. Mr. McKee said he holds a copyright on a technology that is now in use. TransCanada is using a process called Keystone Generators but other technology is available, and royalties for its use are due to him. He cautioned against government non-competitive contracts for pipeline companies that use modifications of years-old contracts for systems and specifications.

6:40:05 PM

RICK ROGERS, Executive Director, Resource Development Council for Alaska, Inc. (RDC), informed the committee RDC supports policies aimed at increasing the commercial viability of developing natural gas resources, especially in the areas of alignment and durability. The HOA signifies the essential alignment not seen in prior gas pipeline projects. Unlike oil, the marketing of LNG requires long-term durability in fiscal terms. He noted that CSSB 138(FIN) am has required a lot of work and analysis, and urged for continued due diligence by the committee in order to have a project that can compete globally and secure the contracts needed to sanction the project. Mr. Rogers opined the most beneficial pipeline for the use of natural gas by Alaskans is a large-capacity pipeline, sanctioned with the producers, and in partnership with the state. The economics of the project will determine its completion, but the

proposed legislation will provide the project the best chance. Finally, he said that the state needs to maintain a robust oil industry on the North Slope because oil pays the bills needed to support the infrastructure required to produce gas. He opined that it is important to defeat Ballot Measure 1 [in the statewide election of August, 2014] to move the project forward. Mr. Rogers concluded that the passage of the proposed enabling legislation is not the final decision, and reminded the committee of the importance of alignment, durability, and a vibrant oil industry to the success of the project.

[6:43:19 PM](#)

REPRESENTATIVE TARR inquired as to whether Mr. Rogers specifically supports CSSB 138(FIN) am.

MR. ROGERS expressed RDC's support of the general premises of the proposed bill such as moving the project forward, the alignment, the general structure, and the business-like agreement which puts the state in a position of partnership.

[6:45:07 PM](#)

GRETCHEN O'BARR said her large family has mostly left Alaska and expressed her total support for any legislation that is pro-business and jobs. She opined the legislation is moving in the right direction although mistakes have been made in the past.

[6:46:07 PM](#)

GEORGE PIERCE expressed his belief that Alaskans should own the controlling interests in their resources. He questioned whether a pipeline connecting the Arctic to TAPS will benefit the producers or Alaskans. He referred to previous testimony by Mr. Roger Marks, legislative consultant, who expressed concern about a state partnership with TransCanada. Mr. Pierce asked why the state should give "gasline decision-making control" to its competitors. He cautioned against funding an expensive gas pipeline study even though the state will not be part of the decision process. In a manner similar to the Point Thomson settlement, an agreement was executed by the state before any details were made public. Mr. Pierce pointed out that only the state - but not the producers - must pay TransCanada if the project fails. Also, there are unanswered questions regarding the MOU between the state and TransCanada. He strongly urged for additional advice from experts and for the state to stop wasting money on yearly pipeline proposals.

6:49:24 PM

LISA WEISSLER disclosed she is a former state oil and gas attorney and a former legislative staffer who worked during the gas fiscal contract days. She paraphrased from a written statement as follows [original punctuation provided]:

Among the many questions and concerns regarding the AlaskaLNG Project, I am particularly concerned about what terms will be in any "project--enabling" contracts negotiated by the Administration, how much pressure there will be on the legislature to authorize one or more contracts next year, and the level of public participation in the decision--making process. Under the Heads of Agreement, Article 4, the Alaska LNG Parties will continue Pre---FEED work through to completion "provided Enabling Legislation acceptable to the Parties is passed and other support referenced in Article 10 is maintained or progressed." Under Article 7, in addition to providing for a confidential negotiation process, acceptable Enabling Legislation will allow for the negotiation of project---enabling contract terms that could address a wide range of topics from state participation to upstream costs and lease expenditures to any other terms the Parties consider necessary to advance the project. Some of these contract terms are addressed as principles in the HOA, but many of the terms under Article 7 are yet to be negotiated.

Among other thing, Article 10 calls for State support of use of eminent domain rights to facilitate the LNG project; appropriations, permitting and legislation for the construction of infrastructure; and unspecified support for a "healthy, long-term oil business." The list is non-inclusive so there could be more.

At least some of the State support for Article 10 items likely to be included as terms in a project-enabling contract. Since the HOA indicates that continuation of Pre-FEED work to completion is contingent on State support, there could be enormous pressure on the legislature to ratify a proposed contract with such terms.

SG 138 is the Enabling Legislation and gives the commissioner of the Department of Natural Resources full discretion to negotiate any terms for inclusion

in the proposed contracts. Though the Administration has testified they will keep the legislature informed on a confidential basis as negotiations progress, there is nothing in SB 138 to assure consultation occurs or any requirement for involving the public. That means that Alaskans will not see a proposed project-enabling contract until the contract is brought to the legislature for an up or down vote, with little opportunity to comment.

Similar to what was required under the Stranded Gas Development Act, it is reasonable to include in SB 138 a requirement for a best interest findings and determination for a proposed contract that would be subject to public review and comment and legislative consultation. Reasons to support such a requirement include:

State participation in the LNG project and associated obligations is a significant public policy decision with long-term consequences to the fiscal future of the state. Alaskans have the right to know the basis for the Administration's decisions and the right to weigh in on these decisions.

The public comment period will give legislators advance opportunity to consider contract terms and to hear from their constituents before a contract is formally presented to the legislature for ratification.

There was a findings and determination with a public comment period prepared for the Stranded Gas Fiscal Contract so we know it is doable.

A draft amendment follows:

**CSSB 138(FIN) am**

**Best Interest Findings Amendment**

AS 38.05 is amended by adding new sections to read:

**[Sec. 1]. Preliminary findings and determination for a North Slope natural gas project contract.**

(a) If the commissioner develops a proposed contract under AS 38.05.020(b)(11) - (12), the commissioner shall make preliminary findings and a determination that the proposed contract terms are in the best interest of the state.

(b) In making the preliminary findings and determination required by (a) of this section, the commissioner shall address the reasonably foreseeable effects of the proposed contract on the public revenue and public services, and shall describe the principal factors upon which the determination made under (a) of this section is based.

**[Sec. 2]. Notice and comment regarding the contract.**

The commissioner shall

(1) give reasonable public notice of the preliminary findings and determination made under [Sec. 1].

(2) make available to the public the proposed contract, the commissioner's preliminary findings and determination, and, to the extent the information is not required to be kept confidential under AS 38.05.020(b)(12), the supporting financial, technical, and market data, including the work papers, analyses, and recommendations of any independent contractors used by the state during development of the contract;

(3) offer to appear before the Legislative Budget and Audit Committee to provide the committee a review of the commissioner's preliminary findings and determination, the proposed contract, and the supporting financial, technical, and market data; if the Legislative Budget and Audit Committee accepts the commissioner's offer, the committee shall give notice of the committee's meeting to the public and all members of the legislature; if the financial, technical, and market data that is to be provided must be kept confidential under AS 38.05.020(b)(12), the commissioner may not release the confidential information during a public portion of a committee meeting; and

(4) establish a period of at least 30 days for the public and members of the legislature to comment on the proposed contract and the preliminary findings and determination made under [Sec. 1].

**[Sec. 3]. Coordination of public and legislative review.**

To the extent practicable, the commissioner shall coordinate the public comment opportunity provided under [Sec. 3](4) with a review by the Legislative Budget and Audit Committee under [Sec. 3](3).

**[Sec. 4]. Final findings, determination, and proposed amendments; execution of the contract.**

(a) Within 30 days after the close of the public comment period under [Sec. 3](4), the commissioner of natural resources shall

(1) prepare a summary of the public comments received in response to the proposed contract and the preliminary findings and determination;

(2) after consultation with the commissioner of revenue, prepare a list of proposed amendments, if any, to the proposed contract that the commissioner of natural resources determines are necessary to respond to public comments;

(3) make final findings and a determination as to whether the proposed contract, including any proposed amendments prepared under (2) of this subsection, is in the best interest of the state.

(b) After considering the material described in (a) of this section and securing the agreement of the other parties to the proposed contract regarding any proposed amendments prepared under (a) of this section, if the commissioner determines that the contract is in the best interest of the state, the commissioner shall submit the contract to the governor.

(c) The commissioner's final findings and determination under (a) of this section are final agency decisions.

**[Sec. 5]. Legislative authorization.**

The governor may transmit a contract developed under AS 38.05.020(b)(11) - (12) to the legislature together with a request for authorization to execute the contract. A contract developed under AS 38.05.020(b)(11) - (12) is not binding upon or enforceable against the state or other parties to the contract unless the governor is authorized to execute the contract by law. The state and the other parties to the contract may execute the contract within 60 days after the effective date of the law authorizing the contract.

[6:54:08 PM](#)

CO-CHAIR SADDLER asked who Ms. Weissler worked for during her time with the legislature.

MS. WEISSLER said she worked as a legislative staffer for Representatives Sam Cotton, Ethan Berkowitz, and Beth Kerttula, and Senator Hollis French.

6:54:41 PM

RACHAEL PETRO, President/CEO, Alaska Chamber of Commerce (Chamber), informed the committee the Chamber represents hundreds of businesses, manufacturers, and local chambers throughout Alaska. Ms. Petro said the execution of the HOA between Alaska businesses and the state was welcome news and the Chamber supports the principles found in the HOA and CSSB 138(FIN) as follows: state participation in an Alaska gas project; the state taking a percentage of gas share and tax share; state participation at the same percentage as the gas share; establishing a clear process to move the project forward, including the tools necessary to develop confidential agreements and contracts; and a public process with legislative oversight, review, and approval. Also, the Chamber believes the best way for Alaska to develop its resources is for the state to participate as a business partner. Members of the Chamber are aware that to succeed the state must provide a competitive, predictable, and stable business environment. In summary, the Chamber supports the aforementioned principles and the committee's due diligence on the proposed legislation.

6:56:47 PM

REPRESENTATIVE SEATON asked whether the Chamber's perspective is that previous state public-private partnerships such as the Barley Project, the Kodiak Launch Complex, and the Knik Arm Bridge and Toll Authority were beneficial to the state, and if this model is used similar issues may arise with the Alaska LNG Project.

MS. PETRO said that Alaska does not have a good track record; however, the partners in the HOA are very successful businesses and that is the basis of the Chamber's support of the principles in the HOA.

REPRESENTATIVE SEATON asked if the problems are not caused by "a mix of the regulator and the sovereign into private business," were the problems caused by the people involved. Representative Seaton remarked:

We want to promote business in this state, and I'm just trying to get a feeling whether that is the most successful model that we've been using, and why it would be so different if we did it this time.

[6:58:53 PM](#)

MS. PETRO opined this project is significantly different than anything the state has done. The principles of a gated process are distinct and allow for opportunities for the state [to review the project]. In addition, the businesses involved "do not take risks lightly." Ms. Petro said the state has a responsibility to develop its resources and act like a business partner. She acknowledged that Chamber members have expressed concern about inappropriate levels of state involvement in past projects.

[7:00:23 PM](#)

REPRESENTATIVE TARR inquired as to why the Chamber is supporting the principles of the bill but not the version under discussion.

MS. PETRO explained that the Chamber supports the HOA document, but has not fully reviewed the bill.

REPRESENTATIVE TARR stated that one of the more contentious issues in the bill is the payment in lieu of taxes (PILT) that will go to local communities. Because the Chamber represents local chambers, and local chambers may take different positions on this or other issues, she asked for the Chamber's role in resolving conflicts.

MS. PETRO acknowledged [local issues] are one of the reasons it is not easy for the Chamber to come to an agreement, as each local member has a seat on its board of directors. The Chamber agrees on many "high-level principles and positions." She encouraged the committee to continue its deliberation with the municipalities on this issue, adding that the Chamber has not discussed this.

REPRESENTATIVE TARR inquired as to whether the Chamber would discuss this issue before the legislature votes on the bill.

MS. PETRO said probably not.

REPRESENTATIVE KAWASAKI asked whether the Chamber supports the MOU with TransCanada.

MS. PETRO said the Chamber has not had a discussion on that portion of the bill.

[7:03:51 PM](#)

REPRESENTATIVE KAWASAKI noted that the committee has heard testimony from smaller pipeline producers that later access to a "mainline" such as TAPS is sometimes difficult, thus the legislature decided to include expansion principles to allow small producers to access the pipeline through rolled-in tariff rates. He asked whether the Chamber would support the expansion principles in the proposed legislation.

MS. PETRO advised that is not something the Chamber has discussed.

[7:05:16 PM](#)

DON ETHERIDGE, Lobbyist, Alaska AFL-CIO State Federation, expressed the Alaska AFL-CIO State Federation's support of the legislation although there will be changes and corrections. His organization supports the idea of building a gas pipeline and getting gas to Alaskans, especially the local hire language and the training funds provisions included in the HOA. The problem during the construction of TAPS was that [Alaska] did not have enough trained workers; however, organized labor now has training schools preparing workers for gas pipeline and other pipeline work. He said that as a result of local hire on this project, during construction money will come back to the state through local people who will spend their wages at home.

REPRESENTATIVE KAWASAKI recalled during testimony on AGIA there was intense debate related to project labor agreements (PLAs) until the substantive portion of AGIA required a commitment to a PLA. Currently, language in the proposed bill, the HOA, and the MOU is vague although the Senate version of the bill includes a letter of intent, which does not carry the full weight of legislation. He asked whether Mr. Etheridge would "like to see [that language] tightened."

MR. ETHERIDGE remarked:

We have reached an agreement with the folks on the Senate side that we wouldn't mess with any of that language if we were able to keep our language that's in there now ... so that's our commitment, is to leave it alone. ... We'd love to see it tightened, but we're not going to work towards that, we're not advocating for it ....

[7:08:56 PM](#)

CO-CHAIR FEIGE asked whether there is currently enough work for those who have been trained until pipeline construction begins; ideally, Alaskans will have sufficient experience to become supervisors on the project.

MR. ETHERIDGE advised that jobs are provided for those in the training programs; in fact, with the present level of activity on the North Slope, the training programs have expanded. Even though some of the trained workers have left to work in North Dakota, they are gaining experience.

REPRESENTATIVE TARR confirmed that the language Mr. Etheridge referenced in the HOA is related to local hire.

MR. ETHERIDGE said that is right, and the letter of intent attached to the bill.

[7:11:13 PM](#)

PAUL GROSSI, Lobbyist, Alaska State Pipe Trades UA Local 375; Ironworker Management Progressive Action Cooperative, informed the committee that the organizations he represents support the bill - to the extent that it will build the pipeline - for four basic reasons: the jobs on the pipeline will be for Alaskans to the full extent of the law through a PLA; there will be in-state access to gas; there will be gas for commercial and industrial development; and there will be adequate state revenue to continue state-funded programs and for capital projects. Because this is a complicated process, those he represents are dependent upon legislators to ensure that the aforementioned provisions are included in the bill.

REPRESENTATIVE TARR observed that access to gas for Alaskans has been an issue and that the provisions in the bill currently under review intend for in-state gas to be available at a comparable cost; however, there is concern that in-state gas may be at a higher cost. If that is the case, she asked, "Do you think that your position would be the same?"

MR. GROSSI was unsure whether Alaska will always have the low cost gas that it has now, and the future price of gas is unknown. He restated that it is the committee's responsibility to ensure that Alaskans have gas at a "reasonable" cost.

[7:15:20 PM](#)

CO-CHAIR FEIGE, after ascertaining that no one else wished to testify, closed public testimony on CSSB 138(FIN) am.

[CSSB 138(FIN) am was held over.]

[7:16:24 PM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 7:16 p.m.