

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 2, 2014

1:04 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  
03/04/14 (S) Heard & Held  
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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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 03/10/14 (S) MINUTE(FIN)  
 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 FIN 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  
03/31/14 (H) Heard & Held  
03/31/14 (H) MINUTE(RES)  
04/01/14 (H) RES AT 4:30 PM BARNES 124  
04/01/14 (H) Heard & Held  
04/01/14 (H) MINUTE(RES)  
04/02/14 (H) RES AT 1:00 PM BARNES 124

#### **WITNESS REGISTER**

JEFF OTTESON, Director  
Division of Program Development  
Department of Transportation & Public Facilities (DOT&PF)  
Juneau, Alaska  
**POSITION STATEMENT:** Provided historical background information on a past gas pipeline project and answered questions during the hearing on CSSB 138(FIN) am.

DAVE BLOOM, Gasline Liaison  
Division of Statewide Design & Engineering Services  
Department of Transportation & Public Facilities (DOT&PF)  
Fairbanks, Alaska  
**POSITION STATEMENT:** Provided information related to the Alaska LNG Project and answered a question during the hearing on CSSB 139 (FIN) am.

SUSAN POLLARD, Assistant Attorney General  
Oil, Gas & Mining Section  
Civil Division (Juneau)  
Department of Law (DOL)  
Juneau, Alaska  
**POSITION STATEMENT:** Answered a question on CSSB 138(FIN) am.

MIKE PAWLOWSKI, Deputy Commissioner  
Office of the 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.

#### **ACTION NARRATIVE**

[1:04:47 PM](#)

**CO-CHAIR ERIC FEIGE** called the House Resources Standing Committee meeting to order at 1:04 p.m. Representatives Seaton, Olson, Tarr, Kawasaki, Hawker, Saddler, and Feige were present at the call to order. Representative P. Wilson arrived as the meeting was in progress.

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

[1:05:04 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, in relation to CSSB 138(FIN) am, invited representatives of the Department of Transportation & Public Facilities (DOT&PF) to make a presentation on improvements to infrastructure that have been made - or need to be made - prior to the construction of a gas pipeline.

1:05:35 PM

JEFF OTTESON, Director, Division of Program Development (DOT&PF), informed the committee that during former Governor Frank Murkowski's administration [2002-2006], focus was on TransCanada's large-diameter gas pipeline project through Canada, which was very different from the current project under discussion. The biggest difference was the route of the pipeline, which followed the Richardson and Alaska Highways, utilizing the Haines Highway as the main port of entry for pipe and materials. Elements of the project were also compared with the construction of the Trans-Alaska Pipeline System (TAPS). Prior to the construction of TAPS, the state's population and vehicle traffic were one-third that of today; in fact, highway fatalities doubled during the construction of TAPS due to the increase in truck traffic. Another difference is that modules are now used for many activities on the North Slope, and it is expected that modules will be used for construction of the gas treatment plant (GTP) and other elements of the liquefied natural gas (LNG) pipeline. Modules weigh about 400,000 pounds and when one is underway becomes "a moving traffic jam." The third difference is that the gas pipeline will be buried rather than built in the elevated position of the oil pipeline, and thus will require many more truckloads of soil and rock for construction. Finally, during the construction of TAPS, the North Slope Haul Road [now known as the Dalton Highway] was closed to the public.

1:09:26 PM

MR. OTTESON continued to explain that although the previous gas pipeline project was shelved, DOT&PF recognized the importance of upgrading the Dalton Highway and other related routes with new bridges and passing lanes in order to prepare for construction of the gas pipeline. Now, however, there are two proposed gas pipeline projects: one large-diameter pipeline and one medium-diameter pipeline, both of which follow all-Alaska

routes so that the roles of the Richardson, Alaska, and Haines Highways and their ports become insignificant, and the ports of Southcentral, Seward, Whittier, Anchorage, and Port MacKenzie become prominent. The Alaska Railroad Corporation, (ARRC) also gains importance as it follows the Parks Highway corridor and could be utilized to carry pipe and earth materials. During the construction season of 2014, eight or nine projects will be underway on the Parks Highway in order to prepare for the pipeline project. Mr. Otteson said the construction projects can be viewed at [www.AlaskaNavigator.org](http://www.AlaskaNavigator.org), Parks Highway Construction Overview 2014. The Parks Highway projects address congestion, safety, and pavement condition, separates the highway from the railroad at one location, and will build many new passing lanes to help separate slow-moving traffic from higher-speed traffic. The ability of DOT&PF to react and respond to needs in the highway system has been aided by flexible federal highway funding; however, the state will need to fund upgrades to airports, the railroad, and ports. In addition, highway maintenance and operation (M&O) facilities are not eligible for federal funds.

MR. OTTESON advised there is increased air traffic at the Deadhorse Airport resulting from Senate Bill 21 [passed in the 28th Alaska State Legislature]. He noted that DOT&PF has not learned much about the logistical plans of the Alaska pipeline proposals.

[1:12:34 PM](#)

DAVE BLOOM, Gasline Liaison, Division of Statewide Design & Engineering Services (DOT&PF), informed the committee DOT&PF has had very little involvement or contact with the Alaska LNG Project sponsors. On February 27, 2014, he attended a right-of-way planning meeting which was a broad overview of the project, and there have been two meetings on the permitting needs of the project; however, further meetings have not been scheduled. He said DOT&PF intends a commonsense approach to addressing the impacts of the pipeline project on the highway system, by exploring access and egress points, safety improvements, turn lanes, the use of bridges, the use of material sites on the Dalton Highway, and the level of service needed at airports along the Dalton Highway. Mr. Bloom cautioned that all of these logistics will need to be better defined. A DOT&PF consultant is performing a pavement evaluation and analysis of the Parks Highway from Willow to Fairbanks, a draft of which is due April 30, 2014. He advised that before DOT&PF can quantify the impacts of pipeline construction, many factors have yet to be

determined such as the type of haul vehicle, port of entry, alignment, and the material needs.

1:16:20 PM

REPRESENTATIVE TARR recalled DOT&PF estimated \$2 billion of improvements were needed for the previous pipeline proposal. She asked whether the state should expect that level of costs for the current proposal.

MR. BLOOM said he did not expect another estimate of \$2 billion because the improvements to the Parks Highway have been ongoing, and many of the projects listed in 2008 have been completed. Additionally, the Haines, Alaska, and Richardson Highways are no longer relevant to the project. Also, many of the ongoing projects on the Dalton and Parks Highways will be completed under the State Transportation Improvement Program (STIP).

REPRESENTATIVE TARR expressed her hope that the upgrades have benefits outside of the project, and are generally needed. She questioned whether the state should assume all of the costs for the transportation system upgrades for the project, in addition to ongoing maintenance. Representative Tarr asked if the upgrades will be funded by the state's annual DOT&PF maintenance request and if so, the impact on other projects.

MR. OTTESON responded that many of the upgrades are for the good of commerce and the traveling public. This is also true for the projects that have already been completed such as rebuilding the bridge over the Tanana River near Tok. He opined these projects are not "something we're doing that takes away from the state. It may change the timing a little bit, but it ultimately ... it's all for the good of all."

1:20:24 PM

CO-CHAIR SADDLER inquired as to whether there are any transportation needs specific to the pipeline but that are not generally beneficial to the traveling public.

MR. OTTESON acknowledged that the movement of modules may require turnouts so that traffic can pass; in addition, turning and acceleration lanes will be needed near materials storage sites and at employee camps. However, under the previous proposal, it was well understood by the oil and gas companies and TransCanada that they would have pay those costs. He said:

When an activity is really directed at the pipeline alone, I think that's kind of where the line gets drawn as to whose ledger it goes to be paid by.

CO-CHAIR SADDLER asked whether it is anticipated that special accommodations, such as acceleration lanes and turn-outs, would be funded by the project.

MR. OTTESON stated DOT&PF has not negotiated these costs, but based upon precedent, "I would expect that would be our starting position."

CO-CHAIR FEIGE turned to the current operating capacity of the state's ports and their current percentage of total capacity. The state's major port is Anchorage, and he asked whether there is spare capacity in the port system to accept extra traffic because of pipeline construction materials, and if there are plans for expansion at any of the state's ports in addition to the work underway at Port MacKenzie and the Port of Anchorage.

MR. OTTESON recalled under the previous proposal the principal port of entry would have been Haines, where a large shipment of pipe was planned every two and one-half weeks with 30-40 trucks per day leaving Haines. In Southcentral there are four ports, all of which will be connected to the railroad after the Port MacKenzie extension is completed.

[1:23:53 PM](#)

REPRESENTATIVE KAWASAKI asked how DOT&PF handles municipally-owned ports; for example, will the municipalities perform due diligence for the pipeline project, or will DOT&PF negotiate for the municipalities.

MR. OTTESON explained for the previous project there was a substantial joint effort with the municipalities, ARRC, the ports, and DOT&PF. This was in place about eight or nine years ago, and at that time the department had been provided with a logistics plan prepared by the industry. If necessary, DOT&PF will organize similar opportunities to share information and identify needs.

REPRESENTATIVE KAWASAKI observed that the logistics planning is "far behind" and asked whether that causes concern for DOT&PF.

MR. OTTESON assured the committee that the public highway side is "well along," but other needs, such as aviation, are unknown

and without funding. For example, the airports along the Dalton Highway are not for general public use. Additionally, the federal government will not participate in the cost for improvements to ARRC and the ports. He cautioned that the state or industry will have to provide [financial] resources for these needs.

REPRESENTATIVE KAWASAKI asked whether the state provided general funds (GF) for the improvements to the Deadhorse Airport.

MR. OTTESON said yes. A combination of state and federal funds has been requested; the state provided funds primarily to build additional employee housing for the fly-in camp.

[1:26:56 PM](#)

REPRESENTATIVE KAWASAKI asked whether future M&O costs are included in the construction of new buildings.

MR. OTTESON responded:

There's a pretty good effort to try to identify those costs. I can't tell you there's a pretty good effort to actually attach additional dollars to those costs when they come onto our ledger. It's just the budget process.

REPRESENTATIVE SEATON assumed most of the facilities will be on the North Slope. He inquired as to whether any facilities will be built along the pipeline route that the state might want to maintain, rather than require them to be removed.

MR. OTTESON related that some maintenance stations are inefficient due to their age. Also needed is a new facility on the Parks Highway to replace one that was removed.

[1:29:24 PM](#)

REPRESENTATIVE SEATON observed that industry may build private airports to support the project, and asked whether DOT&PF may negotiate to assume ownership. Especially in the North Slope area, there are roads slated for removal and rehabilitation; however, there are now municipalities there and perhaps the state should not require roads to be removed. He urged DOT&PF to plan for the future use of industrial facilities.

MR. OTTESON agreed. In fact, an airport in the Brooks Range was funded by the state and industry to avoid the 20-year obligation for M&O that attaches to federal funding.

CO-CHAIR SADDLER requested more details on ARRC's possible participation in the project.

MR. OTTESON stated that DOT&PF does not have enough information on the logistics of the project, except to say that the department has undertaken a statewide rail plan. In further response, he said the draft of the plan is overdue.

CO-CHAIR SADDLER then asked whether ARRC's bonding authorities for industrial development could be used in any way to support the project.

MR. OTTESON advised that the railroad can carry so much more weight without damage to the public highway system - and at a lower cost - it is to the industry's advantage to utilize the railroad system for longer distances.

CO-CHAIR SADDLER noted rail and truck transportation both have advantages.

MR. OTTESON indicated his agreement.

[1:33:19 PM](#)

REPRESENTATIVE TARR related that the Heads of Agreement (HOA) indicates the state will assume the financial responsibility for additional infrastructure upgrades. She recommended that the intent should be clear, suggesting that the cost of upgrades should be split based on the proportion of an entity's involvement, and asked whether DOT&PF would be able to determine the proportion of the upgrade that is for the state's benefit, and the proportion that is for another party's benefit.

MR. OTTESON advised that DOT&PF routinely apportions costs for access points into shopping malls to determine who is responsible for the costs of traffic lights, turn lanes, and other features; in fact, this is an example of apportioned cost-sharing between the state and industry, thus the same principles would apply to the pipeline.

REPRESENTATIVE TARR pointed out the HOA directs that the state will fund the cost of the upgrades.

CO-CHAIR SADDLER said there is proposed legislation creating a transportation infrastructure fund. He asked how such a fund would help or hinder the funding for the pipeline project.

MR. OTTESON expressed his understanding that the transportation infrastructure fund establishes a scoring process with criteria. To the extent that the criterion includes an economic development value, the project would score highly.

CO-CHAIR FEIGE invited the committee to address questions to the commissioners of the Department of Revenue (DOR) and the Department of Natural Resources (DNR).

[1:38:08 PM](#)

REPRESENTATIVE HAWKER directed attention to the bill beginning at Section 10 which read:

\* **Sec. 10.** AS 31.25.120 is amended to 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 asked:

How does the Department of Law read and how do they understand what's being accomplished with the language in this bill in Section 10 on page 9.

[1:38:36 PM](#)

SUSAN POLLARD, Assistant Attorney General, Oil, Gas & Mining Section, Civil Division (Juneau), Department of Law (DOL), asked whether Representative Hawker was referring to deleted language of the bill beginning on page 9, line 17 which read:

[A SUBSIDIARY CORPORATION CREATED UNDER THIS SECTION  
MAY BE INCORPORATED UNDER AS 10.20.146 - 10.20.166.  
THE]

REPRESENTATIVE HAWKER said yes.

MS. POLLARD explained the reason for that change is that DOL had interpreted the deleted language as limiting the Alaska Gasline Development Corporation (AGDC) to only being able to form subsidiaries under Alaska Statutes - Title 10. The purpose of the change is to make clear that AGDC has existing authority under AS 31.25.120, and the change is intended to expand the subsidiary-creating power so that AGDC can choose to structure any type of subsidiary.

REPRESENTATIVE SEATON asked the commissioners if the subsidiaries have been eliminated, and whether the language is still needed.

[1:41:19 PM](#)

MIKE PAWLOWSKI, Deputy Commissioner, Office of the Commissioner, Department of Revenue (DOR), stated that the power granted to AGDC to create subsidiaries is an important tool so it can carry out its business purposes. In CSSB 138(FIN) am, AGDC is given the power to use any corporate mechanism through the powers granted in House Bill 4 [passed in the 28th Alaska State Legislature] to carry out its tasks. He opined this power is necessary because the ultimate role of AGDC may entail not only

the LNG plant, but also in separate subsidiaries utilized for other purposes such as operating gathering lines, and AGDC needs the maximum flexibility to carry out its purposes for the state.

REPRESENTATIVE SEATON inquired as to whether the state is required to approve the subsidiaries. He posed a scenario in which subsidiaries are formed using a structure that could inadvertently threaten the state's tax-free status.

MR. PAWLOWSKI answered that the nature of a specific subsidiary and the circumstances of its tax status will depend upon its structure and its development. The relationship between state agencies and AGDC is similar to that of TransCanada Pipelines, Limited (TC), in that AGDC will be providing services to DNR and DOR - providing liquefaction services for the gas - and the contract between DNR and AGDC will come back to the legislature for approval. At that time there will be a better understanding of the tax issues with AGDC; however, he pointed out that AGDC has a board of directors, staff, and legal counsel for its proper management.

[1:45:05 PM](#)

REPRESENTATIVE SEATON asked that the departments advise the legislature if further provisions are needed on this topic.

REPRESENTATIVE HAWKER referred to previous testimony regarding unclear language in the Memorandum of Understanding (MOU) and asked for comments from the administration on the [unidentified] language.

[1:46:50 PM](#)

JOE BALASH, Commissioner, Department of Natural Resources, informed the committee he contacted Mr. Tony Palmer, Vice President, TC, to confirm the intent of the MOU. He directed attention to a document found in the committee packet entitled, "Preliminary Agreements to be Negotiated Should Enabling Legislation Pass," which outlines the various agreements and actions that will take place following the passage of enabling legislation. The Alaska Gasline Inducement Act (AGIA) [passed in the 25th Alaska State Legislature] termination notice is expected to take place in the second quarter of 2014 shortly after the execution of the Precedent Agreement and the Equity Option Agreements. Commissioner Balash said Mr. Palmer concurred [with the foregoing statement], and he and Mr. Palmer

further discussed drafting a memorandum to the committee "on this question."

REPRESENTATIVE HAWKER appreciated the data points found in the document provided to the committee. However, the document contains who, what, where and when, but no interpretive information as to what each event is or clarification on "exactly where you're headed with that MOU."

COMMISSIONER BALASH agreed.

CO-CHAIR SADDLER also appreciated the information contained in the aforementioned document. He recalled previous testimony by Mr. Roger Marks [petroleum economist, contract consultant to Legislative Budget and Audit Committee] related to the extent of regulatory enforcement of the project either by the Federal Energy Regulatory Commission (FERC) or by the Regulatory Commission of Alaska (RCA). He questioned whether regulatory enforcement by FERC or RCA applies to the project, or if there is the right balance with regulation by contract.

[1:49:53 PM](#)

COMMISSIONER BALASH explained that the regulation of the oil industry has been relied upon by the state for years to ensure that the tariffs charged for the transport of oil are accounted for, and charged appropriately to protect the state's netback values. He characterized the history of that regulation as "mixed." Regulation is not necessarily an answer; however, because the state's focus turned from an overland project to an LNG project, the lack of regulation on the liquefaction facility, the terminal, access, and rates became an issue of concern for the administration. If the liquefaction facility is the major access point to markets outside of the state, regulation on pipeline terms will not be helpful. Therefore, there was an effort to address this topic in the HOA, Appendix A Pro-Expansion Principles. Regarding the pipeline itself, the state "ha[s] no decision-making on" the pipeline due to questions of jurisdiction; for example, the pipeline is integral to and part of the liquefaction facility, and the liquefaction facility is not subject to regulation. If the entire project is regulated pursuant to [Section 3 of the Natural Gas Act, 15 U.S.C. § 717b (NGA Section 3)] the state needs to focus on access, terms, and the provisions in the HOA, ARTICLE 6: REGULATORY FRAMEWORK, ACCESS, and on key terms in the MOU with TC, related to the provision of third-party services. He observed that the state has committed - with the producers -

under NGA Section 3 to ascertain whether NGA Section 3 provides sufficient assurance, and if so, the question remains whether FERC agrees that "they" have NGA Section 3 authority on the pipeline.

CO-CHAIR SADDLER requested an explanation and the implications of NGA Section 3.

[1:54:24 PM](#)

COMMISSIONER BALASH advised NGA is the federal body of law governing natural gas facilities, including pipelines and liquefaction terminals. Of NGA, Section 7 governs interstate pipelines, and Section 3 governs liquefaction facilities. A key difference between the two sections is that Section 7 regulates pipelines for environmental, health, and safety purposes, and also regarding access to the pipeline and rates. Section 3 does not include economic regulation, leaving a question of jurisdiction, which will be decided by FERC. The state seeks to establish fundamental principles to apply to the pipeline should FERC decide that the regulatory framework will be Section 3.

MR. PAWLOWSKI, in response to Co-Chair Saddler, directed attention to the HOA, ARTICLE 6.4 that included a sentence which read [original punctuation provided]:

Each Party must be satisfied with commercial terms and regulatory framework prior to the execution of the FEED Agreement for the Alaska LNG Project.

MR. PAWLOWSKI informed the committee that the parties to the agreement include the state, AGDC, the producers, and TC, and the aforementioned sentence indicates that jurisdictional clarifications must be settled prior to the FEED stage scheduled for early 2016.

[1:57:45 PM](#)

COMMISSIONER BALASH, in response to Co-Chair Saddler, said the process to establish jurisdiction will begin with a series of informal conversations with FERC staff; subsequently, there may be a request for a petition for declaratory order (PDO) that would be formally filed with FERC, and responded to during the pre-FEED phase.

REPRESENTATIVE TARR expressed her understanding that the pipeline would be under RCA jurisdiction and only jurisdiction over the liquefaction facility is in question.

COMMISSIONER BALASH pointed out that FERC jurisdiction would preempt state jurisdiction, thus if Section 3 governs the pipeline, the outcome is unclear at this time. Again, the pre-FEED phase is the time to clarify the process.

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REPRESENTATIVE HAWKER directed attention to section 49 of the bill which read:

\* **Sec. 49.** AS 43.55.160(g) is amended to read:

(g) On and after January 1, 2014, in addition to the reduction under (f) of this section, in the calculation of an annual production tax value of a producer under **(a)(1)(A) or (h)(1)** [(a)(1)] of this section, the gross value at the point of production of oil or gas produced from a lease or property **north of 68 degrees North latitude** that does not contain a lease that was within a unit on January 1, 2003, is reduced by 10 percent if the oil or gas is produced from a unit made up solely of leases that have a royalty share of more than 12.5 percent in amount or value of the production removed or sold from the lease as determined under AS 38.05.180(f). This subsection does not apply if the royalty obligation for one or more of the leases in the unit has been reduced to 12.5 percent or less under AS 38.05.180(j) for all or part of the calendar year for which the annual production tax value is calculated. This subsection does not apply to gas produced before 2022 that is used in the state **or to gas produced on and after January 1, 2022.** A reduction under this subsection may not reduce the gross value at the point of production below zero.

REPRESENTATIVE HAWKER observed this is the part of the bill recognizing conforming changes to the gas tax regime. However, adding "north of 68 degrees North latitude" within section 49 is a substantive change, and he asked for clarification.

2:01:31 PM

MR. PAWLOWSKI directed attention to section 48 of the bill which read:

**Sec. 48.** AS 43.55.160(f) is amended to read:

(f) On and after January 1, 2014, in the calculation of an annual production tax value of a producer under **(a)(1)(A) or (h)(1)** [(a)(1)] of this section, the gross value at the point of production of oil or gas produced from a lease or property north of 68degrees North latitude meeting one or more of the following criteria is reduced by 20percent: (1) the oil or gas is produced from a lease or property that does not contain a lease that was within a unit on January 1, 2003; (2) the oil or gas is produced from a participating area established after December 31, 2011, that is within a unit formed under AS 38.05.180(p) before January 1, 2003, if the participating area does not contain a reservoir that had previously been in a participating area established before December 31, 2011; (3) the oil or gas is produced from acreage that was added to an existing participating area by the Department of Natural Resources on and after January 1, 2014, and the producer demonstrates to the department that the volume of oil or gas produced is from acreage added to an existing participating area. This subsection does not apply to gas produced before 2022 that is used in the state **or to gas produced on and after January 1, 2022.** A reduction under this subsection may not reduce the gross value at the point of production below zero. In this subsection, "participating area" means a reservoir or portion of a reservoir producing or contributing to production as approved by the Department of Natural Resources.

MR. PAWLOWSKI explained the sequence of statutes enacted in Senate Bill 21 begins in section 48. The primary intent in amending these sections is to remove the gross value reduction - enabled in Senate Bill 21 - from gas produced after 1/1/22 which is specified in sections 49 and 50. The relationship between the gross value reductions in section 49, subsection (g) refers back to subsection (f), thus the qualification [north of 68 degrees North latitude] is not a substantive change, but provides clarity to taxpayers.

REPRESENTATIVE HAWKER remarked:

In the (f), I already had the geographic isolation, when I look at that [subsection] (g), it prefaced what, in addition to the reduction under (f). I understand is really we're just making very, very certain that we were talking about applying these provisions to the same geographical areas of the state. ... In that this second call it ring-fencing of that area north of 68 was not in or discussed in the development of the original S[B] 21 language, does it have any material change to industry or the way regulations have been developed?

[2:03:44 PM](#)

MR. PAWLOWSKI answered that the regulations as developed, and the implementation of Senate Bill 21, are unchanged.

REPRESENTATIVE HAWKER restated his question as to whether there is a material change to the application of tax provisions to industry.

MR. PAWLOWSKI said to his knowledge, no.

REPRESENTATIVE SEATON recalled testimony on April 1, 2014, from several mayors across the state - based on their previous experience - that there is the possibility that proposed property tax changes could be implemented even though the project fails. He asked if there is a way to avoid a similar situation.

[2:05:17 PM](#)

MR. PAWLOWSKI assured the committee that if a project does not get built the appropriate property tax statutes are irrelevant. In addition, he referred to the Alaska State Constitution, Article 9 ~ Finance and Taxation, section 4 which read in part [original punctuation provided]:

The real and personal property of the State or its political subdivisions shall be exempt from taxation under conditions and exceptions which may be provided by law.

MR. PAWLOWSKI explained that there must be a statutory change to enable the type of payment in lieu of taxes (PILT) and impact payment arrangements that are highlighted in the document

provided in the committee packet. On that document it is shown that Impact Payment & PILT Proposal/Recommendations require consultations with communities, need to be authorized by the fourth quarter of 2014, and require legislative statutory approval. The timing of this process indicates the importance of engaging with advisory groups now, and bringing legislation back before the legislature to further contractual development, although the effective dates depend on the future statutory change, and how the contracts are written. Conceptually, the effective date for production tax after 1/1/22, having a future application of the tax is open for discussion.

REPRESENTATIVE SEATON noted the bill includes implementing language on what can be negotiated at this point in time. He asked whether there is a disadvantage to the state of having a provision that says an agreed-upon renegotiation or property tax negotiation will only apply if the project proceeds, due to the concern that the negotiations on this project may include other portions of oil and gas property. A provision such as this would ensure that unless the project advances to completion, the property tax relationship will not change.

[2:08:49 PM](#)

MR. PAWLOWSKI apologized for misunderstanding the premise of Representative Seaton's question. He further explained that property tax is applicable to the Alaska LNG Project. Mr. Pawlowski continued:

The question of whether changes to the property tax would be recommended for existing and other infrastructure is again, going back to the constitution, a question of statutory changes that are brought back out of the recommendations of this impact advisory group, for consideration by the legislature. I know there are other pieces of legislation in this building being considered today that deal with the property tax. How those issues get discussed are relevant, and I would worry about placing limits on something that needs a statutory change even prior to the contracts being fully fleshed out or executed, so I guess the concern of expanding the development of these agreements beyond the scope of the AKLNG project would again ... depend on a statutory change that this legislature would consider before they even consider a contract.

REPRESENTATIVE SEATON restated his concern about negotiating a "big block" of terms all at one time, and subsequently modifying certain terms later. He suggested having the terms not applicable unless the project is successful, instead of returning to the legislature for a statutory change.

[2:11:09 PM](#)

CO-CHAIR SADDLER asked what calculations the administration has made to justify its decision that it is in the state's best interest to include TC in the project, rather than seeking alternative financing arrangements or acting alone. He asked what assurance can be given to Alaskans that this structure will produce the best deal.

COMMISSIONER BALASH acknowledged that multiple factors are weighed in a project as complicated as this. In its calculations and analyses, the administration considered the impact to the state's revenues, its debt capacity, its ultimate ability to assume a position in the project, and cash flow analyses such as present value, opportunity/cost, and undiscounted cash, as has been presented to the committee by the administration's consultants. He opined the question of "best" comes down to the bidding process when further comparisons will be made. Clearly, at the point that bids are made public and the results of bids are made public, the commercial behavior of the companies disclosing their bids changes; in fact, there is an opportunity cost and impact cost to transparency after the loss of confidentiality. The administration worked hard to achieve advantageous terms - especially with regard to the capital structure - with TC when compared to other recent pipeline projects in North America. He pointed out the alternative to having TC as a partner is to proceed alone, or find another partner that meets the minimum qualification (MQ) standard for the project, of which there are few. He concluded that it is in the interest of the state to pursue a partnership with TC.

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REPRESENTATIVE OLSON referred to a TC document that indicated TC has undertaken one megaproject - defined as one in excess of \$1 billion - the Keystone Pipeline System Phases 1 and 11. He assumed that of the producers on the North Slope, ExxonMobil Pipeline (XOM) has probably built pipelines at a cost in excess of \$6 billion, and BP and ConocoPhillips have built projects larger than the Alaska LNG Project. Representative Olson

suggested that the partners have the capability to complete this project.

MR. PAWLOWSKI stated that from DOR's perspective, there are encouraging facets to all of the parties in the project. The level of expertise ExxonMobil, BP, ConocoPhillips, and TC offer is the reason the state is also participating. In addition, TC has expertise in project management, and the business interest of the state has directly aligned with TC in seeking the maximum throughput from the North Slope. The department values the expertise of all of the companies involved.

REPRESENTATIVE OLSON offered his opinion that the main thing TC brings to the project is AGIA.

[2:20:25 PM](#)

MR. PAWLOWSKI said that is a fair point considering the unreimbursed work, support for the work done between Livengood and the North Slope, and the expertise and data on the gas treatment plant (GTP) and pipe that is directly applicable to the project, in addition to TC's commitments in the MOU to exit from AGIA and move to a commercial relationship.

REPRESENTATIVE HAWKER directed attention to section 31, paragraph (17) of the bill which read:

**(17) direct the disposition of revenue received from gas delivered to the state under AS 43.55.014(b) by entering into agreements with the commissioner of natural resources related to the management of the custody and disposition of gas delivered to the state under AS 43.55.014(b).**

REPRESENTATIVE HAWKER said this amendment adds another duty to those of the commissioner of DNR: to direct the disposition of revenue received from gas delivered to the state, basically in the "tax as gas, gas as tax provisions." He suggested strengthening the state's position by directing the disposition into an appropriate fund of the state.

MR. PAWLOWSKI agreed to review the language.

REPRESENTATIVE TARR recalled that Mr. Marks suggested the state is "using [TC] as a bank," and traditional financing may produce better terms. She asked whether the administration considered

simply contracting with TC on its portion of the project rather than entering into a partnership.

2:23:56 PM

MR. PAWLOWSKI responded that the state's participation is in one portion of the pipeline, and all of the partners together will decide how the project will be built and managed. The state could hire TC as a consultant but unlike TC, consultants are not investing for equity. Furthermore, a bank would not provide the state with expertise on the location of compressor stations, logistics, gas throughput, third-party participation, and all of the nuances of an LNG pipeline. He reminded the committee that the state is wholly aligned with the producers on wanting to achieve the highest possible price for its LNG in Asia, and is also aligned with TC on wanting maximum production from the North Slope. The interest that TC holds in the project is not possible with any bank, and is one of the reasons DNR considers TC a partner and a co-investor.

COMMISSIONER BALASH supported Mr. Pawlowski's comments, saying the characterization of TC as a bank is silly. Although the terms offered by TC could be bested or matched by other institutions, the service and expertise provided by TC benefits the state. Many levels of participation were considered during negotiations; however, TC needs a certain level of return in order to allocate personnel and provide expertise. Regarding whether the state could purchase engineering services and consultancy, he said those services do not come cheaply and are limited in depth.

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REPRESENTATIVE HAWKER asked Commissioner Balash to further define AGDC's role - as stated in the HOA, the MOU and the legislation - in the natural gas pipeline portion of the midstream.

COMMISSIONER BALASH explained over the next two years during the pre-FEED phase, AGDC will be focused on the Alaska Stand Alone Pipeline (ASAP) project; in fact, that role is specifically described in the HOA. In the longer term, AGDC would be the state government agency assigned through a separate memorandum of understanding to exercise the equity option with TC and hold 40 percent interest. Furthermore, in the event TC or the state terminates the Precedent Agreement, the equity stake in the midstream most likely would be transferred to AGDC.

MR. PAWLOWSKI directed attention to section 1, paragraph (1) of the bill which read:

**Sec. 31.25.005. Purpose.** The corporation shall, for the benefit of the state, to the fullest extent possible,

(1) **develop and have primary responsibility for developing natural gas pipelines, an Alaska liquefied natural gas project, and other transportation mechanisms to deliver natural gas in-state for the maximum benefit of the people of the state;**

MR. PAWLOWSKI advised the Senate made the above referenced amendment to put AGDC in a position "to receive the interest in the midstream."

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REPRESENTATIVE HAWKER stated he was hearing a conflict between statute and intent: Section 1 clearly places AGDC in a participatory position in the development of the Alaska LNG Project and other pipelines, and Commissioner Balash related the intent that AGDC would work on ASAP, yet execute the equity option agreement and potentially hold 40 percent interest. He questioned how AGDC could receive interest on an informed basis if it is not involved in the underlying details of the process.

COMMISSIONER BALASH clarified that the equity option agreement will be signed by DNR and DOR and then assigned to AGDC, all of which the AGDC board of directors is aware. Regarding agreements to which AGDC is a direct party, AGDC has been involved in multiple meetings and discussions. He said:

With regard to the specific agreements between the agencies and TransCanada, there has been a very careful bit of consideration given to the authority that AGDC has today versus what they will have going forward. And so the law of the land today is that AGDC is ... looking at an in-state pipeline only [and is] not involved in a big export project. And so there's been a very delicate set of steps that have been taken over the course of the last six, seven months, and the development of this legislation.

[2:37:55 PM](#)

REPRESENTATIVE HAWKER then turned attention to [Exhibit B to Memorandum of Understanding, Alaska LNG Project Equity Option Term Sheet] point 1 which read:

1. Upon execution of the Transition Agreements, TADI or its Affiliate would grant the State an exclusive and irrevocable right to acquire ("Option"), either for its own account or through a State Affiliate designated by the State acting through the Commissioners (the "Optionee"), up to 40% (see point 2 below) of the limited partnership interests in one or more limited partnerships (or similar entities; see point 10 below) (the "Limited Partnership") that would hold an equity participation interest (see point 2 below) in the PTU Gas Transmission Line, PBU Gas Transmission Line, GTP, and Gas Pipeline (collectively, the "Midstream Component").

REPRESENTATIVE HAWKER asked whether AGDC is a useful tool or is it involved in any of the decision-making.

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COMMISSIONER BALASH advised that AGDC has been identified as a useful tool; in fact, it is the instrument to carry the state's interest in the Alaska LNG Project. He pointed out that the role of the agencies after the project is past the FEED gate, is going to "dial back considerably," and the role of AGDC as one of the equity parties is going to increase. At that point the biggest role [the administration] will play is to develop marketing instruments for the sale of the gas: sales purchase agreements (SPAs).

REPRESENTATIVE HAWKER observed that the language as originally drafted created a statutory subsidiary within AGDC for the purpose of its immediate participation in the Alaska LNG Project. He said it was sensible to have AGDC take a role in this and "the backstop project" from the beginning so it would be prepared by its early involvement in the business management development process. He asked, "Are you compromising our ability to put our state's best foot forward by excluding AGDC from that front-end participation?"

COMMISSIONER BALASH said he does not believe that is the case.

REPRESENTATIVE P. WILSON warned that care must be taken to ensure that the agreements in AGIA are not jeopardized. She inquired whether that is a factor in how provisions in the bill are now written.

[2:44:04 PM](#)

COMMISSIONER BALASH recalled at the time of AGDC's origin, [Committee Substitute for House Bill 369(FIN) passed in the 26th Alaska State Legislature], it was accepted that the bulk of North Slope gas would flow through a pipeline across Canada and North America. The main pipeline was not expected to reach into Southcentral to respond to the shortage of Cook Inlet natural gas, thus there was a high priority to build a spur line off the main pipeline or to build a "stand alone pipeline" to Southcentral. Currently, with a large pipeline planned for Southcentral, there is an overlap with AGDC's interest; the mission that AGDC was given last year to "get gas to Alaskans" remains intact. He assured the committee that one of the parallel projects will fall away, or the two projects will merge. The HOA ensures that AGDC remains focused on its mission until it is assured that the Alaska LNG Project will deliver North Slope gas to Alaskans.

REPRESENTATIVE P. WILSON said her question was indirectly answered.

[2:48:14 PM](#)

COMMISSIONER BALASH continued to explain that the relationship between the state and TC is a commercial one intended to facilitate the efficient and economic transmission and marketing of gas. This mission differs with getting gas to Alaskans, and after the passage of House Bill 4 there was an effort not to provide inducements to a competing project. However, the state and TC have reached a point of understanding that allows AGDC to pursue ASAP, subject to the status of the Alaska LNG Project at the end of 2015.

REPRESENTATIVE SEATON recalled previous testimony advocating that the state guarantee to make its investment at the point of project sanction, instead of at pre-FEED. He has heard that earlier involvement assures the state can influence compressor spacing, and asked, "What would be the downsides and the losses, and what [are] the gains in avoiding the risk of ... going through a \$600-\$800 million investment ...?"

[2:52:57 PM](#)

COMMISSIONER BALASH shared a lesson learned from the AGIA experience: The state was entitled to information through monitoring visits but its rights to the assets generated by the project were contained in an option to buy out the assets - such as information, reports, and engineering studies - if the license were abandoned. This was a costly and unsatisfactory position. The state's position in the Alaska LNG Project is as an equity participant from the beginning, and thereby will have an ownership stake in the assets should the project fail. He cautioned that renegotiating the state's position in the current project has not been broached with the other parties; in fact, the administration is committed to pursuing the Alaska LNG Project.

REPRESENTATIVE SEATON asked for confirmation that ownership in the project is by tenants in the entirety: The state has 25 percent interest and if the project fails, the state owns 100 percent of the information without further cost, and can proceed with or without the other parties in a future project.

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COMMISSIONER BALASH clarified that in the AGIA framework the state was paying 90 percent of the cost after the completion of open season, and in the current project the state will pay a much smaller percentage. Although, through the partnership with TC, the state has deferred its costs imposed by AGIA, the nature of the access to, and the use of information and assets generated, will be the material terms of the equity agreements.

REPRESENTATIVE SEATON opined it is important to clarify whether all four parties are tenants in the entirety of the information and engineering, and if the project does not go to sanction, whether the state can use the information without buying out the interest of the other parties. For example, if the state elects to pursue ASAP, he asked, "... Do we have to go back and purchase the producers' portion of the information?"

COMMISSIONER BALASH affirmed that the ASAP effort and the Alaska LNG Project effort are going to be working cooperatively to share as much information as they can, subject to commercial agreements. He expressed his understanding that the equity agreements will not direct that parties would have to buy out other parties with regard to assets and information that can be duplicated. For non-divisible assets, future agreements will be

negotiated by the project parties, including AGDC and TC, operating on the state's behalf.

REPRESENTATIVE SEATON stated he is very hopeful that this project succeeds; however, the state must also plan for the possibility that it does not. Because the state is making an early investment, he urged for the administration to ensure the state's access to the information for a future effort.

[3:00:47 PM](#)

REPRESENTATIVE HAWKER directed attention to section 17, paragraph (3) of the bill which read:

(3) modify net profit shares for oil and gas and sliding scale royalty rates for gas by establishing fixed royalty rates that yield a value to the state that the commissioner determines to be not less than the value the state would have received under the terms of the lease before a modification under this subsection.

REPRESENTATIVE HAWKER said the above paragraph addresses the net profit shares for oil and gas leases, and asked whether net profit share leases (NPSLs) are expected to be a source of gas for the Alaska LNG Project and if so, how the commissioner would determine their value.

COMMISSIONER BALASH confirmed that NPSLs will be supplying gas to the project. For accounting, there is a system that tracks investments made on behalf of the lease, which must be paid back before additional payments are made. The payments will be determined by an economic analysis and a written determination based on a reasonable set of forecasts and pricing, followed by conversion into an equivalent fixed royalty that would be added to the base royalty amount. He further described the accounting procedure, noting that all of the parties have agreed to the procedure.

[3:04:29 PM](#)

REPRESENTATIVE HAWKER acknowledged "the [accounting] mechanism," but restated his question as to whether there are a significant number of NPSLs affecting the project. He also questioned how the above-described task will be accomplished.

COMMISSIONER BALASH answered that the determination will require judgments on the part of DNR as to the costs, and the expected revenue associated with the project, because the lease itself contributes to the project. He offered to provide the committee with specific information on the number of NPSLs affecting the project, adding that "there are far more net profit share leases in the Point Thomson Unit than there are in the Prudhoe Bay Unit, but those are relative counts ...."

CO-CHAIR SADDLER related there has been public concern throughout the AGIA process about what the state gained in return for its reimbursements to TC. He suggested adding to the bill a requirement for regular updates to the public from the legislature regarding the reimbursable expenses TC has undertaken on the state's behalf.

COMMISSIONER BALASH responded that the HOA describes regular updates that are to be provided by the project to the legislature and the public, including cost information.

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

[3:06:31 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:06 p.m.