

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

April 5, 2014
10:09 a.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 AND 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
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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
03/10/14 (S) Heard & Held
03/10/14 (S) MINUTE(FIN)
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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 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
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
04/02/14	(H)	Heard & Held
04/02/14	(H)	MINUTE(RES)
04/03/14	(H)	RES AT 4:30 PM BARNES 124
04/03/14	(H)	Heard & Held
04/03/14	(H)	MINUTE(RES)
04/04/14	(H)	RES AT 1:00 PM BARNES 124
04/04/14	(H)	-- Testimony <Invitation Only> --
04/05/14	(H)	RES AT 10:00 AM BARNES 124

WITNESS REGISTER

MICHAEL PAWLOWSKI, Deputy Commissioner
Office of the Commissioner
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Answered questions and provided the administration's position on proposed amendments to CSSB 138(FIN) am.

DAN FAUSKE, President
Executive Team
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

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

KEN VASSAR, General Counsel
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Answered questions on proposed amendments to CSSB 138(FIN) am.

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

POSITION STATEMENT: Answered questions on proposed amendments to 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 proposed amendments to CSSB 138(FIN) am.

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

POSITION STATEMENT: During the hearing on CSSB 138(FIN) am, answered questions and provided the administration's position on proposed amendments.

EMILY NAUMAN, Attorney
Legislative Legal Counsel
Legislative Legal and Research Services
Legislative Affairs Agency
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions on proposed amendments to CSSB 138(FIN) am.

JANAK MAYER, Partner, Energy Consultant
analytica
Washington, DC

POSITION STATEMENT: As consultant to the Alaska State Legislature, answered questions related to proposed amendments to CSSB 138(FIN) am.

NIKOS TSAFOS, Partner, Energy Consultant
analytica
Washington, DC

POSITION STATEMENT: As consultant to the Alaska State Legislature, answered questions regarding proposed amendments to CSSB 138(FIN) am.

ACTION NARRATIVE

[10:09:03 AM](#)

CO-CHAIR ERIC FEIGE called the House Resources Standing Committee meeting back to order at 10:09 a.m. Representatives Tarr, Seaton, Olson, P. Wilson, Kawasaki, Hawker, Saddler, and Feige were present at the call back to order. [The meeting was previously recessed at 3:05 p.m. on April 4, 2014.]

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

10:09:16 AM

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

[10:09:18 AM](#)

CO-CHAIR FEIGE resumed the committee's discussion of Amendment 7, labeled 28-GS2806\I.A.46, Bullock, 4/2/14. He reminded members that yesterday, April 4, 2014, Amendment 7 had been moved, objected to, and the committee was in discussion.

The committee took a brief at-ease.

[10:10:42 AM](#)

CO-CHAIR FEIGE set aside Amendment 7. He announced that the committee would now look at amendments proposed by the administration that have come back from Legislative Legal and Research Services.

[10:11:16 AM](#)

CO-CHAIR FEIGE moved to adopt Amendment 8, labeled 28-GS2806\I.A.67, Bullock, 4/4/14, which read:

Page 4, following line 24:

Insert new bill sections to read:

"* **Sec. 4.** AS 31.25.050 is amended to read:

Sec. 31.25.050. Legal counsel. Except as provided in (b) of this section, the [THE] corporation shall retain legal counsel to advise the corporation in legal matters and represent it in litigation.

* **Sec. 5.** AS 31.25.050 is amended by adding a new subsection to read:

(b) The attorney general shall

(1) be the legal counsel for the corporation for legal services related to the development of contracts and agreements by the corporation that relate to an Alaska liquefied natural gas project; and

(2) consult with the corporation when procuring outside counsel for legal services related to an Alaska liquefied natural gas project."

Renumber the following bill sections accordingly.

Page 14, line 3:

Delete "sec. 14"

Insert "sec. 16"

Page 17, line 24:

Delete "sec. 17"

Insert "sec. 19"

Page 21, line 16:

Delete "sec. 27"

Insert "sec. 29"

Page 25, line 9:

Delete "sec. 30"

Insert "sec. 32"

Page 31, line 18:

Delete "sec. 37"

Insert "sec. 39"

Page 53, lines 24 - 25:

Delete "sec. 23"

Insert "sec. 25"

Page 54, line 25:

Delete "sec. 14"

Insert "sec. 16"

Page 56, line 6:

Delete "Sections 1 - 14, 16, 17, 23 - 27, 29, 30, 37, 39, and 55 - 61"

Insert "Sections 1 - 16, 18, 19, 25 - 29, 31, 32, 39, 41, and 57 - 63"

Page 56, line 8:

Delete "sec. 38"

Insert "sec. 40"

Page 56, line 9:

Delete "secs. 62 and 63"

Insert "secs. 64 and 65"

REPRESENTATIVE HAWKER objected for discussion purposes.

CO-CHAIR FEIGE explained Amendment 8 addresses the status of legal counsel for the Alaska Gasline Development Corporation (AGDC). He requested the administration speak to the amendment.

[10:12:04 AM](#)

MICHAEL PAWLOWSKI, Deputy Commissioner, Office of the Commissioner, Department of Revenue (DOR), explained Amendment 8 represents a considerable amount of work trying to define the roles and relationship between the state agencies, as done in other portions of the bill. To date, discussion has primarily been in regard to the Department of Natural Resources (DNR), DOR, and the Alaska Gasline Development Corporation (AGDC). However, the Department of Law (DOL) has been left out in a lot of the discussion. He noted that DOL provides legal services and procures outside counsel on behalf of the agencies. The intent of Amendment 8 is to clarify that the legal counsel for AGDC, in its work related to the development of contracts and agreements for the Alaska Liquefied Natural Gas (LNG) Project, will be the attorney general. The idea is to present a unified legal voice and ultimate responsibility despite that there will be outside counsel. The administration believes it important to ultimately have one voice in the state responsible for all three of the major state entities involved in moving this project forward. A key point is page 1, line 9, which provides that the attorney general shall be the legal counsel for the corporation in the development of these contracts; AGDC will maintain its corporate counsel, but will also be the client in this relationship to the Department of Law. An important potential amendment to Amendment 8, Mr. Pawlowski suggested, would be to add similar language to page 1, line 13, so it would read "legal services for the corporation related to an Alaska liquefied natural gas project." This would make it clear that in both instances it is AGDC that is actually the client. He thanked DOL for its work in support of the administration in moving the gasline forward.

REPRESENTATIVE P. WILSON understood paragraph (2), line 12, of Amendment 8 clarifies "exactly what the status between them is."

MR. PAWLOWSKI said his suggestion for additional language is to do exactly that, to clarify the relationship.

[10:15:03 AM](#)

REPRESENTATIVE P. WILSON moved to adopt [Conceptual] Amendment 1 to Amendment 8 to "be a conforming amendment to clarify the relationship there between the attorney general and the corporation" so that it is exactly clear what that is.

REPRESENTATIVE P. WILSON, after discussion with committee members, withdrew Amendment 1 to Amendment 8.

[10:16:45 AM](#)

REPRESENTATIVE HAWKER moved to adopt Amendment 2 to Amendment 8:

Page 1, line 13, after "services":
Insert "for the corporation"

Thus, page 1, line 13, would read, "legal services for the corporation related to an Alaska liquefied natural gas project." There being no objection, Amendment 2 to Amendment 8 was adopted.

[10:17:51 AM](#)

REPRESENTATIVE SEATON understood the language in Amendment 8 on page 1, lines 4-5, which reads, "**Except as provided in (b) of this section, the** [THE] corporation shall retain legal counsel to advise the corporation in legal matters", means within AGDC's corporate structure. But, paragraph (b) with the attorney general provides that if AGDC is doing anything with contracts or hiring legal counsel, AGDC would consult with the attorney general.

MR. PAWLOWSKI replied correct and added the intent is that AGDC retain its internal corporate counsel for all of the broad range of activities that AGDC on an individual basis does. Paragraph (b) is saying that when AGDC is engaged in the development of contracts for the Alaska LNG Project, the attorney general shall be the legal counsel for the corporation. Secondly, it will not always be DOL attorneys, but rather outside counsel hired and supervised by DOL. The Department of Law does a panel in that procurement process; AGDC would be consulted on the outside counsel and that outside counsel would be for AGDC during the development of those contracts. The intent is to narrowly tailor the engagement of DOL within AGDC, which will, under HB 4 and CSSB 138(FIN) am, have a much broader mission on behalf of the State of Alaska beyond the Alaska LNG Project.

[10:19:32 AM](#)

REPRESENTATIVE SEATON noted Amendment 8 says an "Alaska liquefied natural gas project" which is the Alaska LNG Project. Another term that has been used throughout amendments is an "in-state gasline project." He inquired whether Amendment 8 means that this only applies to this consortium partnership that is

going forward and otherwise AGDC will be using its internal counsel.

MR. PAWLOWSKI confirmed the aforementioned is correct.

REPRESENTATIVE HAWKER added that the purpose of Amendment 2 to Amendment 8 is to make it very clear throughout that the attorney general's client in this process is AGDC.

[10:20:35 AM](#)

CO-CHAIR FEIGE asked whether AGDC agrees with Amendment 8.

DAN FAUSKE, President, Executive Team, Alaska Gasline Development Corporation (AGDC), Department of Commerce, Community & Economic Development (DCCED), responded AGDC is very pleased and satisfied with Amendment 8.

[10:21:05 AM](#)

REPRESENTATIVE TARR inquired what it is that Amendment 8 accomplishes in terms of advancing the project.

MR. FAUSKE responded some issues have come up in the past that have been regarding who is actually the client and who is representing who. Amendment 8 gives a much clearer definition so that when AGDC is engaged with the attorney general, AGDC is the attorney general's client as well; but, as AGDC gets outside counsel, it is clear that AGDC is also the client to outside counsel. This clears up the conflict that that creates as to who is representing who to where there is a much better direction and a much cleaner relationship to help expedite the project and not get hung up into legal issues involving lawyers. He deferred to Mr. Ken Vassar for further comment.

KEN VASSAR, General Counsel, AGDC, Department of Commerce, Community & Economic Development (DCCED), confirmed Mr. Fauske's comment is correct. The language in Amendment 8, along with the helpful amendment to the amendment, makes it very clear that the attorney general, in providing legal counsel, is providing counsel to AGDC as the client and therefore owes attorney-client responsibilities and duties to AGDC. So, Amendment 8 is very helpful.

[10:23:18 AM](#)

REPRESENTATIVE KAWASAKI asked whether the attorney general is legal counsel for the Alaska Railroad Corporation, Alaska Aerospace Corporation, and other public corporations.

MR. PAWLOWSKI deferred to Mr. Poag of the Department of Law.

CHRISTOPHER POAG, Assistant Attorney General, Labor and State Affairs Section, Civil Division, Department of Law, replied the Alaska Railroad Corporation has its own counsel. He did not have an answer for the Alaska Aerospace Corporation, he said. The Alaska Permanent Fund Corporation, Alaska Industrial Development and Export Authority (AIDEA), and Alaska Energy Authority (AEA) are represented by DOL. The vast majority of public corporations are represented by the Department of Law, he noted, but there are some exceptions, including AGDC.

[10:24:30 AM](#)

CO-CHAIR FEIGE moved to adopt Amendment 3 to Amendment 8:

Page 1, line 4, after "**counsel.**":
Insert "(a)"

There being no objection, Amendment 3 to Amendment 8 was adopted.

[10:25:28 AM](#)

REPRESENTATIVE HAWKER removed his objection to Amendment 8. There being no further objection, Amendment 8, as amended, was adopted.

The committee took a brief at-ease.

[10:27:49 AM](#)

CO-CHAIR FEIGE moved to adopt Amendment 9, labeled 28-GS2806\I.A.68, Bullock, 4/4/14, which read:

Page 30, lines 19 - 20:
Delete "upstream of the point of production of gas"
Insert "and, under AS 43.55.020(e), considered as gas produced from a lease or property for the purpose of AS 43.55.011 - 43.55.180"

Page 30, line 21:

Delete "for"
Insert "in"

Page 30, line 22:

Delete "a reservoir"

Insert "and, under AS 43.55.020(e), considered as gas produced from a lease or property for the purpose of AS 43.55.011 - 43.55.180"

REPRESENTATIVE HAWKER objected for discussion purposes.

REPRESENTATIVE HAWKER explained Amendment 9 was brought to [his and Co-Chair Feige's] attention by producers in the Cook Inlet. He said the amendment provides very eloquent clarification to avoid ambiguities over the point of production and essentially links the exemptions for flared gas or gas used to re-pressurize reservoirs to existing definitions and exemptions under the payment of production tax statute. Amendment 9 has a great deal of complexity that has been worked out in cooperation between his and the co-chair's offices and the state agencies.

MR. PAWLOWSKI noted Amendment 9 is in Section 36, page 30, lines 18-23, of CSSB 138(FIN) am. He said there are normal instances in the state where the production tax does not apply to gas and certain activities around gas. These include when gas is flared or released or allowed to escape and when used in the operation of the lease or property. The language in Section 36 links it to the upstream of the point of production. The language in Amendment 9 would link it to the specific areas of statute. He requested Ms. Pollard of the Department of Law to provide further details.

[10:30:08 AM](#)

SUSAN POLLARD, Assistant Attorney General, Oil, Gas & Mining Section, Civil Division, Department of Law, explained the point of Amendment 9 or this particular subsection in the bill, is to get clear in the statute that in the initial instance that gas would be flared in excess of what the Alaska Oil and Gas Conservation Commission (AOGCC) would approve of, that it would not be considered tax gas, because that is the section that this is in. This particular provision only applies to the oil and gas production tax; it does not have anything to do with royalty. Oil and gas severed from the state is considered produced unless it meets the circumstances in AS 43.55.020(e), which is typically gas used in the operation of a lease or property for repressuring or gas that is flared. Gas is

continuously flared throughout production operations; as long as it is within AOGCC limits, that gas is not considered produced. Amendment 9 is to make all of that very clear and the relationship between the general statute for "AK 55.020(e)" very specific with respect to the tax gas statute, which is AS 43.55.014.

[10:31:50 AM](#)

REPRESENTATIVE SEATON inquired whether this means there would be no tax on the gas that is flared above the limits allowed by AOGCC and no tax on the gas discharged from a gas conditioning plant, which is downstream of the point of production.

MS. POLLARD answered this would not change existing and long-standing law in the oil and gas production tax relating to what is considered produced or not produced upstream of the point of production. Gas flared in excess of AOGCC limits would be considered produced, as it would be in current law, and it would be taxed under the general 13 percent of gross value at point of production, which is AS 43.55.011(e). Qualifying that she has not been the DOL counsel for AOGCC, Ms. Pollard said she is unaware of a circumstance where there has actually been an excess flare that AOGCC has not approved. Amendment 9 does not address downstream of the point of production, it only deals with what would be happening upstream of the point of production. Point of production is actually the more accurate way to say it, she added.

[10:33:58 AM](#)

REPRESENTATIVE SEATON understood, then, that the statute sections that would replace the terms "upstream of the point of production of gas" would determine that same point.

MS. POLLARD responded the reason for removing "upstream of the point of production" is it causes confusion because it creates a question as to why all of a sudden a phrase is being added that sort of refers to AS 43.55.020(e) but not exactly. This section only relates to the tax gas. Under Amendment 9, page 30, lines [18-20], of the bill would read: "This section does not apply to gas flared, released, or allowed to escape and, under AS 43.55.020(e), as considered as gas produced from a lease or property." It just makes clear that the tax gas provision does not apply to gas that would be considered produced under AS 43.55.020(e), which is gas flared to excess.

[10:35:47 AM](#)

REPRESENTATIVE SEATON said he thinks the problem is that members have not seen this before and he wants to be clear as to whether this is moving the point at which gas can be flared and/or lost and not be taxed, or whether it is just a change in reference to the status.

MR. PAWLOWSKI replied it is a change in reference that does not change anything in existing practice and is more specific than the term that was in the legislation as drafted. It is linking back to that specific instance in AS 43.55.020(e), so DOR views it as clarifying, not substantive.

REPRESENTATIVE SEATON, in regard to the definition of point of production or where this point is on the Alaska LNG Project, understood that Amendment 9 does not change anything that was proposed, it just defines the place by using the statute.

MR. PAWLOWSKI answered correct.

[10:37:15 AM](#)

REPRESENTATIVE HAWKER removed his objection. There being no further objection, Amendment 9 was adopted.

The committee took an at-ease from 10:37 a.m. to 10:43 a.m.

[10:43:23 AM](#)

CO-CHAIR FEIGE moved to adopt Amendment 10, labeled 28-GS2806\I.A. 71, Bullock, 4/4/14, which read:

Page 30, lines 12 - 17:

Delete all material and insert:

"(d) An assessment under AS 43.05.245 against a producer for an underpayment of a tax levied by this section may be made in terms of an amount of gas or an amount of money, as determined under regulations adopted by the department. If the assessment is made in terms of money, the amount for a month of production for an oil and gas lease subject to an effective election under (a) of this section is the product of the number of units of gas by which the producer's delivery to the state was less than the amount required by (b) of this section, multiplied by the gross value at the point of production for each

unit of the gas other than gas that was not subject to tax or gas that was delivered to the state under (b) of this section. The department may allow a credit or refund under AS 43.05.275 for an overpayment of a tax levied by this section that may be issued in the form of gas or money, as determined under regulations adopted by the department. If the refund is allowed in terms of money, the amount of the credit or refund for a month of production for an oil and gas lease subject to an effective election under (a) of this section is the product of the number of units of gas by which the producer's delivery to the state was more than the amount required under (b) of this section, multiplied by the gross value at the point of production for each unit of the gas other than gas that was not subject to tax or gas that was delivered to the state under (b) of this section. Interest that is determined as a percentage of the amount of a tax underpayment or overpayment and a penalty that is a percentage of the amount of a tax underpayment are calculated as a percentage of the amount of money determined in this subsection. An amount of gas that was less than the amount required to be delivered to the state under (b) of this section or an amount of gas that was more than the amount required to be delivered to the state under (b) of this section that is adjusted as provided by a gas balancing agreement to which the state is a party under AS 38.05.020(b)(11) is not subject to assessment under AS 43.05.245 or a credit or refund under AS 43.05.275. In this subsection, "unit" means a unit of measurement for gas identified by the department under regulations adopted by the department and may be expressed as 1,000 cubic feet, 1,000,000 British thermal units, or another appropriate unit of measurement specified by the department under regulations adopted by the department."

CO-CHAIR SADDLER objected.

CO-CHAIR FEIGE explained Amendment 10 is an amendment of the administration and is a product of many weeks work on the part of tax attorneys.

[10:44:22 AM](#)

MR. PAWLOWSKI, to provide a history in regard to Amendment 10, drew attention to CSSB 138(FIN) am, page 30, lines 12-17,

subsection (d), saying that when the departments and the administration considered the opportunity of taking production tax as molecules, thought was given to unforeseen circumstances. When a tax is levied on a taxpayer there are, at times, deficiencies -- the department may determine there was an underpayment or overpayment of the tax. Moving into a world of taking production tax as gas, it was recognized that guidance needed to be provided to taxpayers about what happens in the event there is a deficiency. The department sees a deficiency as much less likely coming through a meter in a production situation than in the standard form of a taxpayer doing a tax return and missing a deduction or claiming too little of a deduction. Under subsection (d), the words "a deficiency in a tax levied by this section" relate to the production tax as gas. The words "if a provision of this title providing for interest" relate to the interest calculation on the overpayment or underpayment of tax. For an overpayment the state owes interest to the taxpayer and for an underpayment the taxpayer owes the state interest. These are often not malicious; sometimes these are just the natural order of doing complex tax returns. The words "the amount of the deficiency and the tax amount on which the interest or penalty percentage is calculated" relate to as if the tax was levied under AS 43.55.011(e). If there is an underpayment or overpayment, calculating the interest based on molecules may be cumbersome, so the department wanted to do it based on the value. However, that "opened some unforeseen consequences where in the future there is a potential for an auditor to take an in-value calculation, back calculate a dispute over the actual volumes that were produced." The department did not want to open that type of lack of clarity, for both the department and the taxpayer, so DOR developed Amendment [10] by working with taxpayers.

[10:47:24 AM](#)

MR. PAWLOWSKI addressed Amendment 10 itself, stating it provides a methodical clarity to both the taxpayers and the department about how, in principle, the department will handle the potential for underpayments or overpayments of gas. Under Amendment 10, an underpayment could be done either in gas or in money, so the amendment is setting out two alternatives. Under the production tax, the state receives installment payments on a monthly basis, with true-up typically occurring at the end of the year. There will be balancing agreements and the state would like the opportunity, under regulations and under a process, to be able to take in additional gas or in money. An underpayment or overpayment is based on the gas produced by the

producer during the month. Amendment 10, page 1, line 10, changes that to "the gas" and he wants to be clear on the record that the gas being described is the gas produced by a producer during the month. The value laid out in Amendment 10 relies on the standard gross value at the point of production calculation. The other values, seen on page 2, lines 5-9, will, under regulation by the department, be expressed as either [thousand cubic feet] or million British thermal units. While specific, this provides for additional specifics because when calculating value there may be the need to use British thermal units, given that contracts for LNG are often done in heating content value, whereas in-kind would look at actual volumes produced.

[10:50:30 AM](#)

REPRESENTATIVE KAWASAKI requested clarification on what would happen in an overpayment situation.

MR. PAWLOWSKI responded that in an overpayment situation under current law, the state refunds with interest due. Were the state taking tax as gas, DOR would work with DNR in the balancing agreements to determine whether it is in the state's interest to give molecules back to the taxpayer during a later month or to actually do a refund payment as the state would do when in-value is taken.

REPRESENTATIVE KAWASAKI remarked he cannot conceive of a situation in which this would happen.

MR. PAWLOWSKI concurred that an underpayment or overpayment in a molecule-driven payment is unlikely. However, the state needs to be prepared for an instance in which a meter breaks or becomes out of caliber. A principle in the Heads of Agreement is to avoid valuation disputes and part of the purpose of Amendment 10 is to avoid a dispute about the methodology around which such an unlikelihood would be resolved.

CO-CHAIR FEIGE commented it is better to have the rules in place ahead of time.

[10:52:18 AM](#)

REPRESENTATIVE KAWASAKI said he cannot envision a situation in which the producers would want to take gas instead of cash.

MR. PAWLOWSKI replied this is something a producer might often prefer, particularly within a tax year. Making up the movement

of molecules between partners and producers is what actually goes into the balancing agreement. As he understands it, the preference, generally speaking, would be to actually take molecules to make up with each other and within that there may be capacity arrangements to provide the capacity for those makeup molecules. He deferred to the commissioner of natural resources for further comment.

JOE BALASH, Commissioner, Department of Natural Resources, responded the balancing agreements from a royalty perspective or a field management perspective allow for true-up on whatever basis or term the parties agree to in the specific agreement. That is something that is not uncommon and is something that should be fairly straightforward as the royalty issues are dealt with. However, because tax is different - it is not a property right per se - this particular set of tools will allow for management in the balancing agreements of these sorts of things that could happen. In the royalty context, ability is needed to make adjustments in those agreements in the event of underproduction or overproduction. That is what a balancing agreement is; it allows for relatively small amounts of underlifting or overlifting, depending upon the commercial needs of the individual player. Because so much of the state's share in this arrangement is going to be comprised of tax gas, the ability to use underpayments or overpayments and the satisfaction of those obligations, either of the state or the other parties, would be enhanced. Otherwise, it is going to be difficult trying to do this all on the back of royalty and not both royalty and tax.

[10:55:03 AM](#)

REPRESENTATIVE TARR recalled that this was presented in the opposite way during the overview of the bill. She inquired what new information helped it be understood that additional flexibility was needed for how to deal with this.

COMMISSIONER BALASH replied it goes to further thought about the balancing agreements and thinking through the kinds of things that are going to be done in this phase of Pre-Front-End Engineering and Design (Pre-FEED). More thought has been given to what those balancing agreements might need to look like and ensuring there are tools for dealing not just with the royalty side but also the tax side.

MR. PAWLOWSKI added there is a fair point that in tax there is both deficiencies and overpayments that happen regularly and

[the administration] focused on the state's side, which was a deficiency. However, there is the question of what happens in the other direction and that is also part of the conversation that led to this discussion.

[10:56:30 AM](#)

CO-CHAIR SADDLER removed his objection. There being no further objection, Amendment 10 was adopted.

[10:56:57 AM](#)

CO-CHAIR FEIGE moved to adopt Amendment 11, labeled 28-GS2806\I.A.72, Bullock, 4/4/14, which read:

Page 47, line 23:
Delete "oil or gas"
Insert "oil and gas"

Page 48, line 1:
Delete "oil or gas"
Insert "oil and gas"

Page 48, lines 2 - 3:
Delete "oil or gas"
Insert "oil and gas"

Page 48, lines 8 - 9:
Delete "oil or gas"
Insert "oil and gas"

Page 48, line 17:
Delete "oil or gas"
Insert "oil and gas"

Page 48, line 18:
Delete "oil or gas"
Insert "oil and gas"

Objection was voiced by Co-Chair Saddler and Representative Tarr.

[10:57:25 AM](#)

MR. PAWLOWSKI stated the administration has made it clear throughout the committee's consideration of this bill that the bill's intent is to allow lease expenditures, whether for oil or

gas, to be deductible against the oil production tax. This has been clearly stated on the record from the moment the bill was introduced and is actually a term in the Heads of Agreement. Amendment 11 is intended to make a conforming or clarifying amendment within Section 50, which is the lease expenditure section. Current language uses the term "oil or gas" which could, despite the record, potentially be deemed as exclusive and the change to "oil and gas" is intended to be inclusive. There is oil, there is gas, there is oil and gas, and there is lease expenditures, and consistent with the intent of the bill to be deductible. [The administration] does not believe it makes any change to the intent or substance of the bill and is a clarifying amendment.

[10:58:52 AM](#)

CO-CHAIR SADDLER removed his objection.

REPRESENTATIVE KAWASAKI objected, saying this is the part of the bill that concerns him quite a bit. The potential costs for Point Thomson could be \$4 billion and the lease expenditures are deductible under the bill. He said he does not think it gets the state to a gas pipeline and could potentially cost the state a couple billion dollars next year in unrealized earnings. Another amendment will be introduced shortly to undo this, he said. He opposed the clarifying language.

REPRESENTATIVE HAWKER said the purpose behind Amendment 11 is simply dealing with the syntax of the word "or," which in a logical operation of the English language can be taken either inclusively or exclusively. The only thing about Amendment 11 is to make certain that it is viewed in the inclusive interpretation. It is nothing more than clarification and conformity with legislative drafting standards.

REPRESENTATIVE KAWASAKI removed his objection, saying the committee will have this debate later.

[11:01:06 AM](#)

REPRESENTATIVE TARR maintained her objection.

A roll call vote was taken. Representatives Olson, Seaton, P. Wilson, Hawker, Saddler, and Feige voted in favor of Amendment 11. Representatives Tarr and Kawasaki voted against it. Therefore, Amendment 11 was adopted by a vote of 6-2.

[11:02:11 AM](#)

CO-CHAIR FEIGE moved to adopt Amendment 12, labeled 28-GS2806\I.A.73, Bullock, 4/4/14, which read:

Page 52, line 15, following "transporting":

Insert "the"

Page 52, line 19, following "gas":

Insert "after completion of mechanical separation"

Page 52, line 21:

Delete "gas"

Insert "the gas after mechanical separation"

Page 52, line 24:

Following "the":

Insert "gas processing"

Following "pipeline":

Insert "downstream of the gas processing plant"

Page 52, line 25, following "system":

Insert "downstream of the gas processing plant"

Page 52, line 26, following "transporting":

Insert "the"

Objection for discussion purposes was voiced by Co-Chair Saddler and Representative Hawker.

[11:02:26 AM](#)

MR. PAWLOWSKI explained Amendment 12 adds additional clarifying language to the definition of the point of production in Section 53 of CSSB 138(FIN) am. The exact point of production is an important piece of statute in that expenditures above the point of production towards the well are deductible as lease expenditures under Alaska tax statutes. Expenditures downstream of the point of production are recovered in tariffs or fees in the transportation charges that are deductible against both royalty and production tax. It is important to remember that costs are recovered; it is just in what manner and over what time period and against which tax. The development of the point of production in this legislation was specifically intended to move the point of production clearly to places that conform to the definition of the Alaska LNG Project. For Point Thomson

that is the entrance to the transmission line that would deliver gas to the gas treatment plant, and, while the gas treatment plant itself may be within the Prudhoe Bay unit, guarantee that the point of production is from the gasline leaving potentially the central gas facility to the treatment plant; so, including those downstream of the point of production and the language was done to demarcate that. As the bill moved through committee, concern was heard from producers in other parts of the state that that change could have adverse impacts on the determination of the point of production, particularly in the Cook Inlet region where there may not be the same processing or separation that occurs on a platform but rather the product is moved to shore. It is not the intent of the department, nor was it the intent of the department, to change the point of production in a way that would drive further towards the well before the completion of mechanical separation. Amendment 12, page 1, line 5, is conforming language that clarifies it is after completion of mechanical separation. This protects the existing interpretation of point of production while providing clarity for the North Slope Alaska LNG Project about that point to ensure that the transmission line and portions of the gas treatment plant are not included upstream of the point of production.

[11:05:30 AM](#)

REPRESENTATIVE HAWKER supported Amendment 12, stating the amendment is to ensure that the change in point of production definition does not adversely affect Cook Inlet operations or gas as piped from offshore platforms to the shore before being separated and thus produced. Without this change there is some risk that the definition could be interpreted as to disallow the pipes and mechanical separation systems onshore from being qualifying expenditures for the purposes of tax credits under AS 43.55.023.

[11:08:05 AM](#)

REPRESENTATIVE HAWKER removed his objection to Amendment 12.

CO-CHAIR SADDLER removed his objection to Amendment 12. There being no further objection, Amendment 12 was adopted.

[11:08:50 AM](#)

CO-CHAIR FEIGE moved to adopt Amendment 13, labeled 28-GS2806\I.A.74, Bullock, 4/4/14, which read:

Page 13, line 28, following "confidential":

Insert "and must be made available to the public at least 90 days before the proposed effective date for the terms"

Page 13, following line 31:

Insert a new paragraph to read:

"(13) consult with the Alaska Gasline Development Corporation in the development of agreements or contracts under (10) or (11) of this subsection for project services related to a gas treatment plant, pipeline, liquefaction facility, marine terminal, or marine transportation services necessary to transport natural gas to market;"

Re-number the following paragraph accordingly.

Page 15, line 22, following "confidential":

Insert "and must be made available to the public at least 90 days before the proposed effective date for the terms"

Page 15, following line 25:

Insert a new paragraph to read:

"(13) consult with the Alaska Gasline Development Corporation in the development of agreements or contracts under (10) or (11) of this subsection for project services related to a gas treatment plant, pipeline, liquefaction facility, marine terminal, or marine transportation services necessary to transport natural gas to market;"

Re-number the following paragraphs accordingly.

Page 30, line 10:

Delete "AS 38.05.020(b)(13)"

Insert "AS 38.05.023(b)(14)"

CO-CHAIR SADDLER objected.

[11:09:16 AM](#)

COMMISSIONER BALASH explained Amendment 13 addresses two matters. The first, on page 1, lines 1-3, is the amount of time which the public, and consequently the legislature, might have to see and review any proposed contracts that come out of the

process that the administration is asking the authority to initiate here. For any contract that is proposed to have an effective or start date, this provides that the contract itself must be made public at least 90 days before that start date. Before such a contract could be executed, there is still the requirement that the legislature would have to approve it if it is for longer than two years. This is intended to provide a window for the public in particular because the administration's plan going forward is to keep the legislature briefed in executive session and under confidential agreements (CAs) up until the point the contracts are concluded and made public. This will give the public a window of opportunity to be engaged in whatever process it is the legislature uses thereafter.

CO-CHAIR FEIGE thanked the administration for bringing forward this particular point in the amendment, saying it addresses several members' concerns regarding the time the legislature would have to consider some of these contracts, which are expected to be far more complicated than this legislation. He said this provision adequately addresses his concerns with having sufficient time.

[11:11:22 AM](#)

COMMISSIONER BALASH, continuing his explanation of Amendment 13, said the second matter addressed by the amendment relates to the powers and duties of the commissioner of natural resources in the development of contracts. Similar to [Amendment 5] that was tentatively discussed on April 4, 2014, this provision would make the consultation between the agencies and AGDC reciprocal. More narrowly crafted than what members saw on April 4, 2014, it speaks specifically to contracts associated with the infrastructure. It may be that DNR actually will consult with AGDC more than that and beyond that particular scope, but in these instances it makes sense for DNR to be in discussion and consultation with AGDC regarding these types of contracts, ensuring DNR knows what "they can and cannot provide to us as an alternative, perhaps, to those services we might be discussing with somebody else."

[11:12:41 AM](#)

REPRESENTATIVE KAWASAKI offered his appreciation for the amendment and inquired what agreements and contracts would be made public under the amendment.

COMMISSIONER BALASH responded the specific contracts that will be brought forward will depend upon the completion of those contracts, so there may be many in [2015] and later there may be more, depending upon what is needed to complete the total package. The anticipation is it will be balancing agreements, marketing agreements, or disposition. The offtake and balancing agreements are going to be the key contracts next year as they relate to the overall commercial structure and the agency role in that structure, vis-a-vis the other parties that will be the equity parties. The important point here is that these are contracts which have duration of more than two years and so these will be the long-term contracts that really enable the project to go forward.

MR. PAWLOWSKI added that those sections also reference the firm transportation services agreement with TransCanada or another transporter like AGDC and the liquefaction services agreements for gas and capacity within the LNG plant. These agreements would also be brought back within that timeframe for legislative consideration. The Memorandum of Understanding (MOU) [with TransCanada] calls out certain dates on the firm transportation services agreement; so, 90 days prior to that effective gives a window on a deadline for the administration to deliver an agreement.

[11:16:08 AM](#)

CO-CHAIR SADDLER removed his objection. There being no further objection, Amendment 13 was adopted.

REPRESENTATIVE SEATON brought attention to CSSB 138(FIN) am, page 13, lines 29-31. He inquired whether the word "or" on line 31 is intended to be an "and/or" so information could be shared in executive session and with confidentiality agreements or with individuals with confidentiality agreements. He offered his opinion that the way it is currently written, it could be an executive session and not have confidentiality agreements once that session is over.

CO-CHAIR FEIGE said the next amendment addresses this issue.

[11:17:52 AM](#)

CO-CHAIR FEIGE moved to adopt Amendment 14, labeled 28-GS2806\I.A.80, Nauman/Bullock, 4/4/14, which read:

Page 13, line 30:

Delete "the legislature only"
Insert "members of the legislature under confidentiality agreements, either"

Page 13, line 31:

Delete "under confidentiality agreements":
Insert "with any member of the legislature individually"

Page 15, line 24:

Delete "the legislature only"
Insert "members of the legislature under confidentiality agreements, either"

Page 15, line 25:

Delete "under confidentiality agreements":
Insert "with any member of the legislature individually"

CO-CHAIR SADDLER objected.

CO-CHAIR FEIGE explained Amendment 14 addresses exactly what Representative Seaton pointed out. The amendment broadens the conditions under which confidentiality agreements are required for members of the legislature when members are in executive session and in individual meetings with any of the parties or the departments. Confidentiality agreements will need to have been signed for confidential information to be conveyed.

[11:19:44 AM](#)

REPRESENTATIVE KAWASAKI offered his appreciation for Co-Chair Feige's willingness to clarify this particular issue. He drew attention to the bill, page 13, line 29, which states "the commissioner 'may'" saying he does not think this issue has yet been addressed. Further, he noted, in previous confidentiality agreement processes within this legislature, key staff members have sometimes been a party; he asked whether this is something that is necessary to address.

CO-CHAIR FEIGE responded that right now the bill says strictly members of the legislature and inquired whether Representative Kawasaki is advocating pros or cons for staff members.

REPRESENTATIVE KAWASAKI said he is just throwing out the issue.

[11:20:54 AM](#)

REPRESENTATIVE HAWKER noted he has a similar concern [in regard to legislative staff]. Regarding the bill's language that "the commissioner 'may' share confidential information" he opined that it is important it be permissive. This is not a blanket discharge of information between the very important confidential negotiating information from the agency to anyone in the legislature that wants to sign a confidential agreement. Going forward, it is important that key legislative staff be involved in these conversations, especially as the project develops and the forthcoming agreements are looked at. It is potentially not only key staff but also legislative consultants who might need to be brought into the appropriate discussion under a confidentiality agreement. He reiterated it is permissive and is not mandating that the agency give that authority to consultants or to legislative staff or to legislators. He inquired whether the sponsor would be receptive to a conceptual amendment to Amendment 14 that would allow it to apply to legislative staff and legislative consultants.

[11:22:41 AM](#)

CO-CHAIR FEIGE replied there would be some concerns on the part of the administration, but allowed it is a legitimate point. He requested the administration's comments.

COMMISSIONER BALASH said that as a former staff person to the Legislative Budget and Audit Committee, he can assure members that the legislature's ability to keep up and be able to act swiftly upon completion of the negotiations and to review the contracts would be enhanced by having that kind of participation during the confidential period. On behalf of the administration he requested the word "may" be kept in the language because if [the administration] is constantly briefing individual legislators, their staff, and their consultants, there would be little time to do the negotiations. There needs to be the ability to manage that in a way that works for all the parties.

CO-CHAIR FEIGE concurred with keeping "may" and said part of what is involved in all parties moving forward is a certain amount of trust and confidential information is confidential for whatever reason. It is important that that information stay confidential because if the trusts are violated, whether by members or staff, it will hurt the process and everyone moving forward. The commissioner should have the discretion depending on who he is talking to and as long as that level of trust is maintained, may be allowed to share the confidential information

and not mandated to share it. Regarding a conceptual amendment to Amendment 14, he suggested taking a brief at-ease to work out specific language. He inquired whether there is further discussion on the amendment before taking the at-ease.

[11:25:32 AM](#)

REPRESENTATIVE TARR expressed her concern regarding "may" and "shall", and said this issue is in a later amendment she plans to offer. Her concern is that members have been assured they will know what is going on by getting the briefings through confidential agreements. Leaving "may" in the language feels like there could be a time when members are left out of that conversation, which is the intent of her [later] amendment. She appreciated the statements about the need for some level of trust, but said if that is the only opportunity for getting information she wants to ensure members can get enough information to be able to make those decisions. She said she will not move the amendment she had planned to move, [labeled 28-GS2806\I.A.45, Nauman/Bullock, 4/2/14].

[11:26:35 AM](#)

REPRESENTATIVE HAWKER appreciated Commissioner Balash's response of recounting his experience as staff. However, as the committee works on an amendment to Amendment 14, there was no clarification as to whether it would also be appropriate that that it would include the legislature's consultants at the discretion of the commissioner.

MR. PAWLOWSKI encouraged members to consider including language for legislative consultants. There may be different levels of confidentiality agreements, he said. For example, DOR has very strict statutory confidentiality and the legislature's consultants may be able to engage in a higher level of confidentiality to get the appropriate numbers. Saying that similar things have been done in the past, he again encouraged members to support the concept because it would promote the efficient movement forward of the project by the consultants being able to see the numbers and more detailed modeling.

[11:28:03 AM](#)

REPRESENTATIVE SEATON said he appreciates this because if a contract comes back for which there is worry about the terms, it will be a much more messy process than if legislators can have input up front.

CO-CHAIR FEIGE reiterated that the issue of trust and the sharing of confidential information depends on how that is followed. Recalling the saying "loose lips sink ships" from World War II, he said "loose lips can sink agreements" and prevent projects from moving forward. This is something that will be very closely monitored.

The committee took an at-ease from 11:29 a.m. to 11:45 a.m.

[11:45:02 AM](#)

REPRESENTATIVE HAWKER moved to adopt Conceptual Amendment 1 to Amendment 14 as follows:

Page 1, line 3, after "legislature":
Insert "and their respective agents and
contractors on request"

REPRESENTATIVE HAWKER added that his motion directs Legislative Legal and Research Services to conform the remainder of Amendment 14 to that language.

CO-CHAIR FEIGE understood the inserted language would apply to members of the legislature and to staff in meetings held in executive session as well as meetings held as individuals, all under confidentiality agreements.

REPRESENTATIVE HAWKER replied yes, and added that "individuals might mean a group of individual or individuals that may, for whatever reason, be being briefed at the same time."

[11:47:35 AM](#)

There being no objection, Conceptual Amendment 1 to Amendment 14 was adopted.

[11:47:43 AM](#)

REPRESENTATIVE HAWKER emphasized the importance and significance of a confidentiality agreement and the bond under which it places someone executing that agreement. As the process goes forward and as agents are nominated and brought into levels of confidentiality, legislators may want to have the Legislative Budget and Audit Committee or legislative counsel provide training and guidance to ensure that both legislators and staff

understand the obligations under which they are placing themselves when executing a confidentiality agreement.

[11:49:09 AM](#)

CO-CHAIR FEIGE queried whether the administration has anything to add regarding Amendment 14.

COMMISSIONER BALASH replied the only question he has relates to the conceptual language of "on request" that was added. He asked whether that language is intended to help [DNR] understand who should or should not be talked to, or is this language meant to obviate or interfere with the word "may" on line 29.

REPRESENTATIVE HAWKER explained this language mirrors the language that exists in the Alaska Gasline Inducement Act statutes today. It was chosen for consistency, but it is to make certain that it is on request to the [DNR] commissioner to allow a legislator, or the legislator's agent or contractors, to participate under a confidentiality agreement. As the entire paragraph in the statute operates, it is requesting a permissive action from the [DNR] commissioner.

[11:50:34 AM](#)

REPRESENTATIVE SEATON requested clarification that the requests are made by a legislator, not by staff, or the contractor or agents.

CO-CHAIR FEIGE said his intent is that members of the legislature would be the ones designating who those agents are. Whether they are staff members or contractors employed under contract by the legislature, those individuals would be specifically designated by members of the legislature and the request made to the [DNR] commissioner.

[11:51:32 AM](#)

CO-CHAIR SADDLER removed his objection to Amendment 14. There being no further objection, Amendment 14, as amended, was adopted.

[11:52:26 AM](#)

CO-CHAIR FEIGE moved to adopt Amendment 15, labeled 28-GS2806\I.A.81, Nauman/Bullock, 4/4/14, which read:

Page 53, line 18, following "BOARD.":

Insert "(a)"

Page 53, line 20, following "project.":

Insert "The board shall review available information, hold public meetings, and provide to the governor by December 15 of each year annual reports that

(1) review the potential effects and benefits of new infrastructure for North Slope natural gas development, whether designed to provide natural gas for in-state sale or for export, or both, on communities in the state, including consideration of tax structure under AS 29.45 and AS 43.56, and consideration of other payments before construction of new infrastructure associated with North Slope natural gas development;

(2) provide recommendations for changes to the oil and gas exploration, production, and pipeline transportation property taxes under AS 43.56 related to infrastructure for commercialization of natural gas that would facilitate development of a major natural gas project and mitigate financial effects on communities from development of a North Slope natural gas project;

(3) provide recommendations for changes to AS 29.45.080 related to the commercialization of natural gas that would facilitate development of a North Slope natural gas project and mitigate financial effects on communities from a North Slope natural gas project;

(4) provide recommendations for legislative or other options to minimize the financial effects on communities in proximity to North Slope natural gas project infrastructure during construction of a natural gas pipeline and associated infrastructure; and

(5) provide recommendations on the effects on and benefits to communities not in proximity to a North Slope natural gas project.

(b)"

CO-CHAIR SADDLER objected for discussion purposes.

[11:52:52 AM](#)

CO-CHAIR FEIGE explained Amendment 15 applies to Section 58 of the bill where the governor is requested to establish an interim advisory board. The governor, anticipating passage of the bill, last week issued Administrative Order 269, which establishes that board. Amendment 15 inserts into statute the language from page 2 of the administrative order that is within paragraphs 1-5 under the caption "Duties and Responsibilities".

The committee took an at-ease from 11:55 a.m. to 12:06 p.m.

[12:06:37 PM](#)

CO-CHAIR FEIGE pointed out that there are systemic differences between the language in Amendment 15 and the language in Administrative Order 269. He requested the amendment drafter, Emily Nauman, to explain these differences because the request was that the language in the amendment be exactly the same as that of the administrative order. For example, he noted, the word "impact" in all five paragraphs of the administrative order has been changed to "effects" in Amendment 15; and in the second and third paragraphs of the order, the words "affected by" are replaced by "from" in the amendment.

EMILY NAUMAN, Attorney, Legislative Legal Counsel, Legislative Legal and Research Services, Alaska State Legislature, explained she viewed the changes as purely stylistic and that she did not think they would make any impact on the intent of the request.

[12:08:43 PM](#)

REPRESENTATIVE HAWKER proposed Conceptual Amendment 1 to Amendment 15 to make the entirety of Amendment 15 conform with the entire section in Administrative Order 269 entitled "Duties and Responsibilities" [on page 2 of the order], with one exception to make this work properly. That exception relates to the proper noun that identifies the "Municipal Advisory Gas Project Review Board." In the statute, the committee is only requesting the governor to establish an interim advisory board. So, to conform statute to the language identified in Administrative Order 269, Representative Hawker suggested the conforming language should begin without the proper noun and instead simply refer to "'the board' shall review available information, hold public meetings"

REPRESENTATIVE P. WILSON objected [for purposes of discussion]. She inquired whether "the board" needs to be defined.

REPRESENTATIVE HAWKER replied no.

[12:11:13 PM](#)

REPRESENTATIVE P. WILSON removed her objection. There being no further objections, Conceptual Amendment 1 to Amendment 15 was adopted.

[12:11:31 PM](#)

CO-CHAIR FEIGE moved discussion to Amendment 15 itself.

REPRESENTATIVE SEATON brought attention to the third to last paragraph on page 3 of Administrative Order 269 which states, "Records of the Municipal Advisory Gas Project Review Board are subject to inspection and copying as public records under AS 40.25.110 - 40.25.220." He inquired whether this means the board will not be considered part of a deliberative process and therefore confidential.

MR. PAWLOWSKI understood the intent in the administrative order is to create a very transparent public process to involve the communities in the recommendations that will come forward to the legislature so that both the public and the legislature can see the "consensus recommendations" that will come back for changes to the property tax.

[12:13:27 PM](#)

CO-CHAIR SADDLER drew attention to paragraph (5) of Amendment 15, page 2, lines 1-2, which state, "provide recommendations on the effects on and benefits to communities not in proximity to a North Slope natural gas project." Remarking that this seems pretty broad, he inquired as to how broadly this provision is to be construed in terms of proximity and terms of the reach of effects and benefits.

MR. PAWLOWSKI responded the key to Administrative Order 269, in thinking about the impact and benefits of an Alaska LNG project on the state, was the recognition that all communities in the state have an indirect interest in this project. A substantial portion of the property tax derives to the state government and that is an interest of other communities potentially through revenue sharing and funding for schools. For example, Seward may not be considered in direct proximity, but it has a rail line and could be an important place to bring pipe through. As was heard in the committee's discussion with the Department of

Transportation & Public Facilities, the needs of ports must be considered for moving material into support of the project. So, there may be impacts throughout the state to which attention must be paid. Given the board contains members of communities that are not directly along the route, the administration thinks it important to provide the broadest latitude to consider the impacts across the state.

[12:15:08 PM](#)

CO-CHAIR SADDLER said the aforementioned indicates a report on the effects and benefits is being requested, but the amendment language says recommendations shall be provided on the effects. He said he does not understand how the effects would be recommended.

MR. PAWLOWSKI replied he is considering it with the conceptual amendment, so it is recommendations on the impact. There would be impacts to communities outside of the proximity to the project.

CO-CHAIR SADDLER, regarding the language, "recommendations on the impact," said the board would not recommend impacts. Thus, he understands a report on the impacts but not recommendations on impacts.

COMMISSIONER BALASH offered his belief the co-chair is touching on something that might be caught up in shorthand. He explained that impacts, generally, are going to be addressed through impact payments and the schedule of impact payments that will be received throughout the state by communities, depending upon the level of impact the communities are expected to experience during construction. In addition to the impacts during construction are the benefits, which the administration is expecting will be a component of the overall payments in lieu of taxes (PILT) agreement itself, in terms of how that property tax revenue will be shared among the communities throughout the state and not just those that have portions of the project running in or through their borders.

[12:17:16 PM](#)

REPRESENTATIVE P. WILSON observed that Administrative Order 269, page 2, points 5 and 6 under the heading of "Composition and Chair of Board", state that there will be one member of an organization representing the interest of municipalities in the state and two members of the public who do not reside [in areas

directly impacted]. She offered her belief that those members will bring in their concerns so that the state as a whole is looked at and those members will take part in the debate when it takes place.

REPRESENTATIVE HAWKER brought attention to Administrative Order 269, page 2, "Duties and Responsibilities", and noted that the lead-in paragraph states "provide annual reports by December 15 of each year to the Governor that include" the items listed in the following five paragraphs. Continuing, he pointed out that paragraph (4) talks about recommendations for communities in proximity to North Slope natural gas project infrastructure and paragraph (5) talks about recommendations on the impact and benefits to communities not in proximity to a North Slope natural gas project. Thus, paragraph (5) is an extension of (4) and cannot be looked at in isolation from its context in (4).

[12:19:35 PM](#)

REPRESENTATIVE KAWASAKI observed Amendment 15, page 2, line 3, includes "(b)" which deals with the members of the advisory board. He recalled the governor "took a drumming ... after the letter came out from the mayors" and said this is an appropriate response in this administrative order. The members of the advisory board in the bill are representatives from municipalities, DNR, DOR, oil and gas lessees on the North Slope, and others. He said he likes the administrative order's language better in regard to the 12-member board.

CO-CHAIR FEIGE pointed out that this is not in Amendment 15.

REPRESENTATIVE KAWASAKI responded that is what he is saying. He said he prefers the language in Administrative Order 269 to the language in Section 58 of the bill, because the order sets out who will be on the board and which municipalities will be on the board. He said he thinks subsection (b) should be changed.

CO-CHAIR FEIGE suggested that either an amendment to Amendment 15 be made or that a separate amendment be drafted by Representative Kawasaki.

REPRESENTATIVE P. WILSON said "it does not take the rest of that out."

REPRESENTATIVE KAWASAKI noted that the bill language puts in a municipal advisory board that has a different set of people than the administrative order. He said he likes the language for the

composition of the board that is in Administrative Order 269 better than what [is in the current version of the bill].

CO-CHAIR FEIGE replied he does not disagree with Representative Kawasaki's point, but suggests bringing back another amendment.

REPRESENTATIVE TARR observed that page 53, lines 18-19, of the bill state, "The legislature requests the governor to establish an interim advisory board under AS 44.19.028" She queried whether there is any conflict in statutory references between the bill and the order.

[12:23:29 PM](#)

The committee took an at-ease from 12:23 p.m. to 12:27 p.m.

CO-CHAIR FEIGE announced the committee is trying to get answers to the aforementioned concerns from the Department of Law.

The committee took another at-ease from 12:27 p.m. to 1:39 p.m.

[1:39:52 PM](#)

CO-CHAIR FEIGE resumed discussion of Amendment 15.

CO-CHAIR SADDLER said he would like to address his concerns about providing recommendations on the "effects of." He moved to adopt Conceptual Amendment 2 to Amendment 15:

Page 2, line 1 after "recommendations":
Delete "on"
Insert "to address"

Thus, page 2, lines 1-2, would read "(5) provide recommendations to address the effects on and benefits to communities not in proximity to a North Slope natural gas project."

REPRESENTATIVE HAWKER objected.

CO-CHAIR SADDLER explained he is making this a conceptual amendment to provide latitude to the drafters to conform the amendment to the language in Administrative Order 269. Conceptual Amendment 2 will provide clarity for the recommendations to address the effects, he said, because "recommendations on the effects of" does not make sense to him.

REPRESENTATIVE HAWKER maintained his objection to Conceptual Amendment 2, saying the core intent behind Amendment 15 is to mirror the duties and responsibilities that are established in Administrative Order 269 and to ensure that there are no ambiguities between statute and what are the duties and responsibilities of the Municipal Advisory Gas Project Review Board. Taken in context, paragraph (5) is quite clear without trying to wordsmith one small difference into it, which could potentially allow for the entire duration of this board the perpetuation of that ambiguity.

[1:42:56 PM](#)

CO-CHAIR SADDLER reiterated that the language is not clear to him. He requested clarification from the administration as to the actual intent of paragraph (5) in the administrative order.

COMMISSIONER BALASH answered that the interpretation and reading provided by Representative Hawker is consistent with that of the administration. Under the duties of this particular board, a report would be provided to the legislature and the broader body politic and public. The recommendations in paragraph (5) are consistent with those in paragraph (4). It is going to be some combination of legislation, a structuring of the PILT payments themselves, and/or impact payments. The desire to be an exact mirror of Administrative Order 269 is helpful. He suggested that just the committee's discussion is perhaps adequate if the concern identified by Co-Chair Saddler is one that nobody wants to leave in question, but otherwise a statement of intent of some sort or a letter of intent might do the trick.

[1:45:43 PM](#)

CO-CHAIR SADDLER requested Commissioner Balash to provide more interpretation as how that report might include recommendations on the impact and benefits.

COMMISSIONER BALASH brought attention to paragraph (4) which states, "Recommendations for legislative or other options to minimize the ... impact" He said this is the consistent reading and it is taken from paragraph (4) down to paragraph (5). Minimizing the impacts and maximizing the benefits is what is wanted. The administration expects there will be benefits to virtually every community in the state. The question is how to ensure that.

CO-CHAIR SADDLER understood the intention of Administrative Order 269 is to have this report include recommendations to minimize the impacts and maximize the benefits to communities not in proximity to a natural gas project. Having declared the intent on record, he withdrew Conceptual Amendment 2 to Amendment 15.

COMMISSIONER BALASH stated that, as a member of this particular board, he will be happy to carry that interpretation and expectation to the board.

[1:47:42 PM](#)

REPRESENTATIVE TARR referenced AS 44.19.028 and suggested there may be a structural problem because an interim advisory board [as established in the bill] would be short in duration and would potentially be statutorily dissolved before the time that the work anticipated by Administrative Order 269 is completed. The administrative order sets up a review board and includes other statutory references to such things as per diem and public records. Thus, there may now be a structural problem where the interim advisory board is different than the Municipal Advisory Gas Project Review Board in time of duration and what the board members are potentially entitled to. For example, per diem and travel expenses would not be available to individuals on an interim advisory board in the same that they are on this review board. She reported that the Department of Law was going to look into this during the time the committee was at-ease to determine whether changes to that language are needed.

MR. PAWLOWSKI responded the guidance he received from the Department of Law is that either through a separate amendment or an amendment to Amendment 15, the reference to AS 44.19.028 on page 53 of the bill, line 19, which is not amended by Amendment 15, would be replaced with the reference of AS 44.19.145(c) for consistency.

CO-CHAIR FEIGE suggested Representative Tarr bring this up as a separate amendment.

REPRESENTATIVE TARR replied she could do that or do an amendment to the amendment. She said this would be the only amendment she has on this matter.

CO-CHAIR FEIGE requested it be brought back as a separate amendment from Legislative Legal and Research Services to ensure

everyone is on board with exactly what it is that Representative Tarr is trying to do.

REPRESENTATIVE TARR agreed to do so.

[1:50:48 PM](#)

CO-CHAIR SADDLER removed his objection to Amendment 15. There being no further objection, Amendment 15, as amended, was adopted.

[1:51:38 PM](#)

CO-CHAIR FEIGE moved to adopt Amendment 16, labeled 28-GS2806\I.A.86, Nauman/Bullock, 4/4/14, which read:

Page 4, line 21:
Delete "shall"
Insert "may"

Page 4, line 22, following "The":
Insert "board may appoint a separate program director for an in-state natural gas pipeline as described in the July 1, 2011, project plan prepared under former AS 38.34.040 and defined in AS 31.25.390.
A"

Page 4, line 24:
Delete "the board and"

REPRESENTATIVE HAWKER objected for discussion purposes.

CO-CHAIR FEIGE explained the purpose of Amendment 16 is to allow the Alaska Gasline Development Corporation (AGDC) to appoint separate program directors for the in-state project and the Alaska LNG Project.

[1:52:16 PM](#)

REPRESENTATIVE HAWKER said the issue on deck is regarding the authority of the board of directors to manage the affairs of AGDC and not violate an appropriate chain of business command within the same organization. There is "double-breasting" of AGDC to work on both the in-state Alaska Stand-Alone Pipeline (ASAP) and the Alaska LNG Project. Amendment 16 allows the AGDC board, within its existing corporate authority, the latitude to appoint a separate program director for the in-state natural gas

pipeline, as well as a program director for the Alaska LNG Project. Amendment 16 is a clarifying amendment to ensure nothing is cross-wired within AGDC and to give the board the latitude it needs to have the best and the most qualified and most appropriate personnel dedicated to each individual project while respecting the corporate organization that the board establishes for AGDC as a whole.

[1:54:15 PM](#)

REPRESENTATIVE KAWASAKI asked how it will work on the ground level with two different program directors dealing with two separate activities for a board that has direction to do both projects.

MR. PAWLOWSKI answered that Representative Hawker appropriately described the separation that is attempted for the corporation to take on both of these efforts; it is up to the board to maintain the appropriate separation. Amendment 16 gives permissive ability for the board to set up program directors on the two different projects reporting to the executive director as part of the normal operation of the corporation. It provides flexibility for the corporation to manage two very important efforts for the state that the corporation is tasked with.

[1:55:34 PM](#)

CO-CHAIR FEIGE pointed out that, unamended, page 4, line 21, of the bill only says that the AGDC board shall appoint a program director for the Alaska LNG Project. Currently, there is no program director for an in-state pipeline. The executive director is to supervise the operations of AGDC and is expected to be able to supervise both projects. It makes sense to provide the opportunity to have program directors for each of those projects. Those program directors are dealing with a pool of specialists within AGDC that, as required, are able to shift from one project to another. The reason for that is simply economy of scale and keeping the expertise that applies to both projects available in one particular corporate entity. The board, in conjunction with the executive director, would hire that program director and that person would then report to the executive director so there would be a clear and distinct chain of command.

REPRESENTATIVE KAWASAKI said that answers his question.

[1:57:45 PM](#)

REPRESENTATIVE HAWKER removed his objection to Amendment 16. There being no further objection, Amendment 16 was adopted.

[1:58:09 PM](#)

CO-CHAIR FEIGE withdrew Amendment 5, which was offered and set aside on 4/4/14. He said the committee addressed the concerns within Amendment 5 through an amendment passed earlier today.

[1:58:32 PM](#)

CO-CHAIR SADDLER withdrew Amendments 6 and 7, [which were offered and set aside on 4/4/14], with the intent that he will bring them back at a later time under different numbers.

The committee took an at-ease from 1:59 p.m. to 2:01 p.m.

[2:01:54 PM](#)

CO-CHAIR SADDLER moved to adopt Amendment 17, labeled 28-GS2806\I.A.83, Nauman/Bullock, 4/4/14, which read:

Page 55, following line 30:

Insert a new bill section to read:

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

LEGISLATIVE BRIEFINGS. Before the first flow of gas in a North Slope natural gas project developed under the authority of this Act, the parties to the project shall, at least once each calendar quarter, provide briefings to interested legislators, legislative staff, and legislative consultants on the progress of a North Slope natural gas project developed under the authority of this Act. A briefing under this section must be accompanied by a written report provided by the Department of Natural Resources of the amount of money the state may be obligated to pay a third party under an agreement or contract under AS 38.05.020(b)(10) or (11) if a North Slope natural gas project is terminated before the first flow of gas in the project."

Re-number the following bill sections accordingly.

Page 56, line 6:

Delete "61"

Insert "62"

Page 56, line 9:

Delete "secs. 62 and 63"

Insert "secs. 63 and 64"

CO-CHAIR FEIGE objected for purposes of discussion.

[2:02:11 PM](#)

CO-CHAIR SADDLER explained Amendment 17 is a revised version of Amendment 6, which the administration had previously expressed some concerns about. First, Amendment 17, page 1, line 10, makes it clear the report is to be provided by the Department of Natural Resources. Second, Amendment 17, page 1, line 11, uses the word "obligated" rather than "liable". Third, Amendment 17, page 1, line 12, specifies the report must include payments that the state is obligated to pay as a result of the precedent agreement or a firm transportation services agreement. He offered his hope that these three clarifications address the administration's concerns.

MR. PAWLOWSKI offered his belief that this language provides the clarity the administration was looking for to fulfill the intent of offering the amendment.

[2:03:23 PM](#)

REPRESENTATIVE HAWKER said he just heard that Amendment 17 provides clarity of intent, but he did not hear a ringing endorsement of the amendment per se. He expressed his concern with Amendment 17, saying the legislature or committee co-chairs can call a committee meeting any time briefings on a project are wanted and can bring anyone before the committee for a briefing of any scope. Amendment 17 would place into uncodified law that "the parties to the project shall, at least once each calendar quarter" The parties to this project are some level of subsidiary organization within the larger organizations of ConocoPhillips, BP, ExxonMobil, some level of organization within AGDC, and some level of organization within TransCanada or a TransCanada subsidiary. If elsewhere in statute there is established a public buy-in process, the public is a party to the project and will need to be brought into that briefing by this definition. Amendment 17 states the obvious; it is not needed in uncodified law in order to allow the legislature any improved access to information, the parties, or any briefing

data that might be made available in such hearings. It is an answer looking for a problem and that problem does not exist.

2:06:02 PM

CO-CHAIR SADDLER, in response to Representative Hawker's concerns, said he thinks the public has a tremendous interest in this project. He related there are lingering concerns about the amount of reimbursement to TransCanada that the state has run up in previous versions. It is important to give the public reassurance that there will be in uncodified law an obligation to have meetings at least quarterly to provide information to let the public know how high that tab is running. Nothing in Amendment 17 says it is not possible to have whatever meetings of the parties for confidential briefings to the legislature, as provided for in other amendments, and to have a separate meeting available to the public that makes that information available to the public. He conceded it is a bit of belt and suspenders, but said it is important enough to give the public reassurance that this is "going to" happen, not just "may" happen.

2:06:57 PM

REPRESENTATIVE SEATON raised the relationship between the confidential briefings and the provision in Amendment 17. He pointed out that the sponsor's intention in Amendment 17 is that these will be public briefings, so the public can be brought along in the process, not just confidential hearings with the legislature.

CO-CHAIR SADDLER confirmed the aforementioned is correct.

2:07:35 PM

REPRESENTATIVE TARR supported the sponsor's intent because it is with the public in mind. She said she has been hearing the same concerns from her constituents about costs and what commitments the state is making. She inquired whether quarterly briefings would be hard to meet or would twice yearly be sufficient.

MR. PAWLOWSKI agreed the timing is something to think about. He pointed out that the Heads of Agreement, page 9, includes a commitment by the Alaska LNG parties, during the Pre-FEED phase, to provide regular Alaska LNG Project updates to the administration, the Alaska State Legislature, and the public. He deferred to the Department of Natural Resources to answer whether the report is a reasonable expectation, given it will

depend on accrual of work plan and budgets and what is actually going on within the venture.

[2:09:26 PM](#)

CO-CHAIR FEIGE requested clarification from the amendment sponsor regarding "the parties to the project" on line 6 of the amendment. He noted there are several different corporations individually that all comprise the parties to the project. He inquired whether the sponsor's intent is that each individual company shall give an individual briefing or whether there be a collective briefing delivered by whoever is running public affairs for the project.

CO-CHAIR SADDLER responded there are three different parties -- the producers, the State of Alaska, and TransCanada. His intent is for all five of those parties. However, the drafters did not see fit to define parties. Each of the producers has its own pipe within a pipe and its own individual interests, so it would be appropriate for each of them to be participants in that briefing.

CO-CHAIR FEIGE understood the sponsor to be saying participants in the briefing, but not necessarily five different briefings; that it would be one briefing with representation by each of the parties involved.

CO-CHAIR SADDLER replied correct.

CO-CHAIR FEIGE requested clarification regarding the written report provided by DNR that begins on line 9 of Amendment 17. He presumed the sponsor's intent is that the written report would be publically distributed on a wide basis.

CO-CHAIR SADDLER answered his intent is for the report to be publically available, but there is no provision for mailing it to everybody in Alaska. Making it available publically presumes Internet publication.

[2:11:16 PM](#)

REPRESENTATIVE KAWASAKI, regarding the issue of parties, pointed out that this is being thought about in terms of the big Alaska LNG Project. However, under the bill, there is also instruction for perhaps an in-state gasline. Thus, his question relates to the definition of project and whether one or both of the two projects are being included [in the amendment].

CO-CHAIR SADDLER appreciated the question, saying he suspects the extent that AGDC is involved in the North Slope natural gas project development through this act, means that, yes, AGDC, would need to be included in those parties and he therefore stands corrected.

[2:12:07 PM](#)

CO-CHAIR FEIGE asked whether a North Slope natural gas project, by definition, is either/or.

REPRESENTATIVE KAWASAKI responded he does not know.

MR. PAWLOWSKI offered his belief that a North Slope natural gas project definition that is linked to AS 38.05.020(b)(10) or (11) would include either project. He pointed out that this is a report by DNR, which is incurring the obligation, and AGDC has actually separate work that it does for outreach and therefore no nexus with DNR in the incurrence of an obligation on behalf of the state. This is why, in working with the amendment sponsor, DNR was chosen -- to target very clearly where the obligation is coming from to be reported.

[2:13:15 PM](#)

REPRESENTATIVE KAWASAKI said when he reads Amendment 17 he has a question of who the parties are; he knows it is the HOA and the MOU that are being talked about in terms of the bill. He inquired whether "the project" includes the small diameter, in-state gasline that is currently being developed.

MR. PAWLOWSKI noted the reference to "North Slope natural gas project" is in CSSB 138(FIN) am, page 20, lines 6-8, which state that it "means a project to produce natural gas from state oil and gas and gas only leases that include land north of 68 degrees North latitude for transport in a gaseous state from the North Slope". At this stage, he continued, AGDC has not asked for, or incurred to his knowledge, any agreements under AS 38.05.020(b)(10) or (11) because those do not exist yet. In the event that AGDC does start to enter into those agreements, it may start to bring in an alternative project, but his interpretation is that that would be a world where the project itself is different.

REPRESENTATIVE KAWASAKI understood "the project conceived in this" is the big Alaska LNG proposal and not any other alternative project.

MR. PAWLOWSKI replied that his interpretation of the sponsor's intent, and what the language reflects, is that it is limited at this stage. He added he was just trying to point out that if projects change, it may become relevant.

CO-CHAIR SADDLER confirmed that [Mr. Pawlowski's interpretation] is his intent.

[2:15:34 PM](#)

REPRESENTATIVE SEATON noted it was mentioned that under the Heads of Agreement there are regular reports. Amendment 17 specifies quarterly. He inquired whether quarterly reports would be a burden or whether the HOA will fit into the requirements as long as the reports are done.

MR. PAWLOWSKI answered it is important to be very specific with the language in this context because reports are always a burden to the group preparing the report. As he reads the language, Amendment 17 describes briefings. To him, that sounds consistent or closely consistent with the commitment on page 9 of the HOA, which is for updates. The report by DNR is separate within this section and that is what the administration was really looking at with the sponsor. In calling for a report it needs to be clear whose responsibility it is and what specifically is to be articulated in the report.

[2:16:43 PM](#)

REPRESENTATIVE SEATON asked whether Mr. Pawlowski sees the briefings required by Amendment 17 as being burdensome, or more burdensome, or would quarterly briefings suffice and coordinate with the HOA.

MR. PAWLOWSKI responded the administration has not gone back to the parties to the Heads of Agreement to define the regular updates and the schedule around those updates. He assumed that in certain circumstances the updates may be more than quarterly, as it could depend on the progress in the project; for example, progress on an export license or engagement with the Federal Energy Regulatory Commission (FERC). He said the administration would want to talk to the partners to the HOA about the burdens of timing around that, but he just wanted to point out that

there was a commitment in the HOA to regular updates by the project for the public, the legislature, and the administration.

CO-CHAIR SADDLER stated that, certainly, the intent is to put more teeth into the agreement than the HOA requiring regular meetings. Regular could mean every year, twice a year, every quarter, or every month. Given the intense nature of the negotiations that will be ongoing for the next year and a half, quarterly is not too onerous. Further, it is not his intent to dictate the exact content of what those briefings should be other than the specificity of requiring DNR to report on how much the state's obligation financially might be to TransCanada. The content, format, and duration of the briefings are entirely up to the parties and would be complimentary to the regular reports envisioned in the HOA.

[2:18:46 PM](#)

REPRESENTATIVE TARR, in regard to Amendment 17 possibly being problematic, inquired whether Mr. Pawlowski thinks discussion in this regard could happen prior to a time when there would not be an opportunity to address it.

MR. PAWLOWSKI replied there are a couple of ways [the administration] engages with the Alaska LNG Project parties. In the legislative process, that has been through the public hearings. They have come to the table and testified. If a provision like this went into the legislation, they would have an opportunity to talk about it. Conversations around the bill have been kept to when provisions specifically go in.

[2:19:36 PM](#)

REPRESENTATIVE HAWKER maintained his objection to Amendment 17.

[2:19:46 PM](#)

REPRESENTATIVE P. WILSON remarked that quarterly seems too much and perhaps three times a year would be better. She moved to adopt Amendment 1 to Amendment 17, which would:

Line 7, before "provide":
Delete "each calendar quarter,"
Insert "every four months,"

CO-CHAIR SADDLER objected, saying he proposed quarterly because that is a standard frequency of business activities. Every four

months is a strange "dipsy-doodle." There is enough negotiation that will be ongoing so that every quarter is not too frequent. He requested the administration's perspective.

COMMISSIONER BALASH answered the rationale in terms of financial reporting makes sense with regard to the obligation for DNR providing a written report. In terms of providing a briefing, a meeting, to interested legislators and staff, the cycle of the year needs to be considered. There is the intense 90 days of the legislature in Juneau and that would make a lot of sense. But during the interim, would those meetings/briefings occur in Anchorage? Would that require travel for those who are interested or would they watch on television? If a briefing was done during session, how many interim briefings would there be? How frequently would they occur? The last thing anyone wants to see is briefings at which very few legislators or staff show up because they happen so frequently. He calculated that under Amendment 1 to Amendment 17, two briefings would be given during the interim and one briefing during the session.

[2:23:58 PM](#)

REPRESENTATIVE SEATON noted that Amendment 17 says "at least" so if the provision is for at least three times a year, nothing would prevent more frequent meetings. He therefore offered his support for Amendment 1 to Amendment 17 because it serves the purpose of making the material available in a timely fashion.

[2:24:47 PM](#)

REPRESENTATIVE TARR pointed out that the enabling legislation has fiscal notes and that next year there will be additional pieces of legislation. Briefings about financial commitments will be necessary for consideration of legislation and the appropriation necessary should that legislation pass. Because legislative appropriations would need to be made, even twice yearly [briefings] should be sufficient, she concluded.

COMMISSIONER BALASH said he thinks Representative Tarr's point is a good one. He added he is pleased with the language on line 11 of Amendment 17 which says "may be obligated" because not all of the specifics of the agreements, and how often financial information is reported back from the venture to the transporter and ultimately the agencies, have yet been put down on paper. It may be that estimates will need to be done based on the last bit of information that was had and there might not necessarily be up-to-date, real-time numbers in terms of cash calls.

[2:26:36 PM](#)

CO-CHAIR SADDLER said he had envisioned that the quarterly frequency might be the most advantageous, but if things have not yet been nailed down then every four months would not be any diminution of the effort and intent of the amendment to ensure that information is available to the public. He withdrew his objection to Amendment 1 to Amendment 17.

[2:27:10 PM](#)

REPRESENTATIVE P. WILSON stated that under Amendment 1 to Amendment 17, the words on lines 6-7 of "at least once each calendar quarter" would be deleted and replaced with "once every four months".

REPRESENTATIVE SEATON objected [for discussion purposes]. He said "at least" should be left in the language so there is not a problem with reporting more often.

REPRESENTATIVE P. WILSON concurred and restated Amendment 1 to Amendment 17, saying the last word on line 6 and the first three words on line 7 would be deleted. Inserted would be the words "every four months". Thus lines 6-7 would read, "the parties to the project shall, at least every four months, provide briefings to interested legislators"

REPRESENTATIVE SEATON removed his objection to the restated amendment to the amendment. There being no further objection, Amendment 1 to Amendment 17 was adopted.

[2:29:52 PM](#)

REPRESENTATIVE HAWKER removed his objection to Amendment 17. There being no further objection, Amendment 17, as amended, was adopted.

[2:30:21 PM](#)

CO-CHAIR SADDLER moved to adopt Amendment 18, labeled 28-GS2806\I.A.84, Bullock, 4/4/14, which read:

Page 53, following line 14:

Insert a new bill section to read:

"* **Sec. 58.** The uncodified law of the State of Alaska is amended by adding a new section to read:

AGREEMENTS AND CONTRACTS RELATING TO THE TRANSPORTATION OF NATURAL GAS. (a) An agreement or contract entered into by the state or an agency of the state for the transportation of natural gas may not allow a transporter to have an option to participate in an in-state natural gas pipeline project as described in AS 31.25.005(4) that is designed to transport more than 2,000,000,000 cubic feet of North Slope natural gas a day.

(b) In this section, "transporter" means a person providing gas treatment plant processing and natural gas transportation services in natural gas pipelines and gas transmission lines that are components of an Alaska liquefied natural gas project, as that term is defined in AS 31.25.390(7), enacted by sec. 12 of this Act."

Renumber the following bill sections accordingly.

Page 56, line 6:

Delete "61"

Insert "62"

Page 56, line 9:

Delete "secs. 62 and 63"

Insert "secs. 63 and 64"

REPRESENTATIVE SEATON objected for discussion purposes.

[2:30:56 PM](#)

CO-CHAIR SADDLER explained the intent of Amendment 18 is to ensure that the provisions to allow TransCanada to reenter a deal for a natural gas pipeline project in Alaska - what is called the five-year back-in or the five-year hook - would not extend to the right for TransCanada to reintroduce itself into what has been described as the Alaska Stand-Alone Pipeline (ASAP), the smaller diameter line. The question of what would constitute a substantially similar project has not been thoroughly defined to his satisfaction. There was some effort to get that clear definition, but having not yet seen that, Amendment 18 seeks to draw the line at the daily volume of 2 billion cubic feet per day of natural gas, such that TransCanada would not have a right to back-in to a deal under AS 35.25.005(4) that was smaller than 2 billion cubic feet per day. Subsection (b) clarifies the definition of "transporter."

REPRESENTATIVE SEATON pointed out that page 9 of Amendment 18 states "designed to transport 'more' than"

REPRESENTATIVE TARR said she thinks it should say "less" than.

[2:32:24 PM](#)

CO-CHAIR SADDLER concurred and moved to adopt Amendment 1 to Amendment 18, which would:

Page 1, line 9, after "transport":

Delete "more"

Insert "less"

There being no objection, Amendment 1 to Amendment 18 was adopted.

[2:33:13 PM](#)

REPRESENTATIVE SEATON requested the administration to speak to Amendment 18.

COMMISSIONER BALASH responded that moving to a volumetric limitation triggers a reaction along the lines of "oh my gosh" due to the experience with the 500 million cubic feet per day limitation that had been in the Alaska Gasline Inducement Act that a number of folks stubbed their toe over. He called the committee's attention to line 8 and the specific reference of AS 31.25.005(4), saying the kind of project described there is one which would not have liquefaction powers for AGDC. This leads to the question of how to get to 2 billion cubic feet per day without having a liquefaction component to the project. Maybe there will be some other industrial use or load along the way, but the administration does take some comfort in that line of demarcation of AS 31.25.005(4) because of that distinction with regard to liquefaction rather than a specific volume.

[2:35:19 PM](#)

CO-CHAIR SADDLER recalled that earlier in the testimony, several questions were heard about what would be defined as a substantially similar line. At that time, willingness was expressed by Mr. Balash to accept someone driving in a stake and saying this is the bright line. Co-Chair Saddler asked whether the administration has, or is working on, a definition of substantially similar or whether there is a better mechanism to

drive a stake someplace to draw that bright line. This is his effort to do so.

COMMISSIONER BALASH replied that yesterday's feedback was to tie the configuration of the project referenced in AS 31.25.005(4) to the current plan that is in place. The statutory reference of AS 31.25.005(4) goes to describe the plan developed in 2011, but then allows it to be updated. It has been updated since 2011 and it is known what ASAP is today, and everybody agrees, including TransCanada, that TransCanada is not trying to back-in to the ASAP Project. The question is just how much definition is wanted here and he thinks everyone would agree that the ASAP plan that the AGDC board and staff are pursuing right now is not substantially similar. A back-in right would not occur until getting to the firm transportation services agreement (FTSA), and whatever back-in right at whatever point in time would not give TransCanada a right of entry to. The feedback provided by the administration yesterday was an understanding of the desire to try and get more specific.

[2:37:51 PM](#)

MR. FAUSKE added that the state is limited under AGIA at 500 million cubic feet [per day] and unless that limitation goes away, AGDC is designing everything to 500 million cubic feet. He understood Amendment 18 is a look into the future as to what potentially might happen. Discussion was had with TransCanada and others as to what significantly similar means. Some of the folks in the room had concerns as to the legalization of that. He said he does not know if the right answer is 2 billion cubic feet. There have been approaches to AGDC from all kinds of folks in a variety of ways and AGDC remains committed to ASAP as well as to making the Alaska LNG Project work. It may not be a bad idea to have something out in the future that allows some other type of development if, in fact, the state's dream does not come true and the project does not work. He understood the sentiment behind the amendment. From what he heard yesterday he thought there was going to be a side letter addressing some of these issues as to the confusion of that language. He apologized if he missed some clarification that was offered.

COMMISSIONER BALASH said a side letter has been put together with TransCanada regarding the timing of the AGIA license termination. TransCanada has executed it and he and [DOR] Commissioner Rodell will do so promptly. The letter was delivered to them from TransCanada in signature form last night.

[2:40:39 PM](#)

CO-CHAIR FEIGE understood Amendment 18 is trying to draw that bright line over what is substantially similar. He asked whether it is correct that changing the 2 billion cubic feet of North Slope natural gas a day to 500 million cubic feet of North Slope natural gas a day would describe the ASAP line at its current stage of development today.

MR. FAUSKE answered correct.

[2:41:45 PM](#)

REPRESENTATIVE HAWKER argued Amendment 18 gets the legislature into micromanaging the terms of the MOU, and the MOU is integral to the HOA. It is known that in complex transaction negotiations like this, for every provision that someone does not like in the accord, something was received that is liked. Legislators do not know about the negotiations that led to that five-year tag provision, which in isolation he has concerns about. If legislators push here it is unknown what comes up over there with TransCanada, especially given that TransCanada has the absolute right to walk away from this whole transaction right up front if this enabling legislation is not to its satisfaction. He said he will continue to be leery of any future amendments that try to micromanage parameters within the MOU and overall transaction because legislators are messing with things they do not know about. While one micromanagement provision might be okay, an aggregate of micromanaging provisions could result in something that is unacceptable to TransCanada. While legislators are not here to be acceptable to TransCanada, legislators are here to move a project forward with the greatest possible assurance and clarity, and he does not want to cloud that. The ASAP Project today is limited to 500 million cubic feet a day. He could easily support Amendment 18 if the 2 billion cubic feet a day was 500 million cubic feet because there has been testimony on the record that 500 million cubic feet would not be considered substantially similar by TransCanada. Why 2 billion cubic feet? Why not 1.75 or 2.25 billion? A line is being drawn in the sand that members really do not know what they are doing. He therefore maintained his objection to Amendment 18.

[2:44:52 PM](#)

REPRESENTATIVE OLSON shared the sponsor's sentiments. He suggested the sponsor could hold on to the amendment for a day

or two until more can be found out. Noting that this has been one of his sticking points all along, he said he chose not to bring his own amendment when he found out about Amendment 18.

REPRESENTATIVE SEATON remarked he does not mind putting sideboards on negotiations that are going forward if the legislature decides it would not want to approve something that is beyond that. However, talking about 2 billion cubic feet a day, when the existing one is 2.4 billion cubic feet a day, does not seem helpful and does not give a good demarcation on things that he believes would be substantially similar.

[2:46:09 PM](#)

REPRESENTATIVE TARR surmised what is being suggested is that instead of less than 2 billion cubic feet a day, the amendment would say more than 500 million cubic feet a day.

REPRESENTATIVE HAWKER replied [the suggestion] is less than 500 million [cubic feet a day].

CO-CHAIR FEIGE pointed out 500 million cubic feet a day is the current size limitation under AGIA. In further response to Representative Tarr he said it would be "less than" [500 million cubic feet a day].

The committee took an at-ease from 2:47 p.m. to 3:00 p.m.

[3:00:34 PM](#)

CO-CHAIR FEIGE set aside Amendment 18, as amended.

[3:00:41 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 19, labeled 28-GS2806\I.A.87, Nauman/Bullock, 4/4/14, which read:

Page 47, line 15:
Delete "a new subsection"
Insert "new subsections"

Page 47, line 23:
Delete "or gas"

Page 48, line 1:
Delete "or gas"

Page 48, lines 2 - 3:
Delete "or gas"

Page 48, lines 8 - 9:
Delete "or gas"

Page 48, line 17:
Delete "or gas"

Page 48, line 18:
Delete "or gas"

Page 48, following line 22:

Insert a new subsection to read:

"(i) For purposes of (h) of this section, for a lease or property that produces both oil and gas, the portion of the

(1) operating costs that are lease expenditures attributable to oil incurred to explore for, develop, or produce an oil and gas deposit is a fraction the numerator of which is the production of oil expressed in BTU equivalent barrels and the denominator of which is the total production of oil and gas expressed in BTU equivalent barrels; and

(2) capital costs that are lease expenditures attributable to oil incurred to explore for, develop, or produce an oil and gas deposit is a fraction the numerator of which is the total proven reserves of oil of the lease or property expressed in barrels and the denominator of which is the total proven reserves of oil and gas of the lease or property expressed in BTU equivalent barrels."

CO-CHAIR FEIGE objected.

[3:01:13 PM](#)

REPRESENTATIVE TARR explained Amendment 19 replaces an amendment [she did not offer] labeled 28-GS2806\I.A.37, Nauman/Bullock, 4/2/14. The intent is similar, but the language is clearer at the suggestion of [the analytical] consultants. Dealt with earlier today was [Amendment 11], related to oil and gas lease expenditures in which there was "or" and "and". Amendment 19 is a further clarification on what would be deductible. She said her concern and the spirit of Amendment 19 is that analytical had calculated that if the gas expenses are allowed to be deducted from oil taxes it could cost [the state] between \$250-\$375

million a year and it is possible that it would reduce oil tax collections from Point Thomson to close to zero. With some of the other modifications that have been made, the state has found itself with bigger budget deficits than perhaps anticipated and [the question is] whether the state can afford to potentially take a hit of almost \$400 million annually for a four-year time period, for a cumulative amount of about \$1.6 billion. She did not believe any of this was modeled when [SB 21] was considered last year because it would not have been relevant at that time, so there was not the opportunity to consider the cumulative impact. Amendment 19, page 1, would delete "or gas"; but regarding page 2, there would not be a real ability to delineate that until such time as there is gas production. So, for purposes of figuring out what would be deductible, it was suggested [by analytical] that operating costs be done from the production tax because for operating cost there would actually be oil production, and that capital cost would be done against the known reserves.

[3:04:25 PM](#)

CO-CHAIR FEIGE directed attention to Amendment 11, which changed the wording in each of the lines [addressed by Amendment 19]. As now amended, he pointed out, the bill currently reads "and gas" rather than "or gas". He said the drafters at Legislative Legal and Research Services will make conforming amendments as appropriate, but he wants to make members are aware of this.

REPRESENTATIVE P. WILSON inquired whether page 2, line 5, of the amendment should read "a fraction of the numerator" rather than "a fraction the numerator".

REPRESENTATIVE TARR replied she, too, read that as a grammatical error and said the drafters would fix that.

CO-CHAIR FEIGE disagreed, saying it reads correctly because the "gas deposit is a fraction the numerator of which" - so it is talking about the ratio there.

REPRESENTATIVE TARR concurred.

[3:06:22 PM](#)

CO-CHAIR FEIGE asked whether the administration has comments on Amendment 19.

MR. PAWLOWSKI responded this issue has come up in just about every committee and discussion around the advancement of a North Slope natural gas project. Regarding the statement that the effects of lease expenditures were not modeled in the discussion of legislation last year, he would respectfully point to the broad presentations that are posted on both the administration's web site and the Legislative Budget and Audit Committee's web site about the impact of lease expenditure, specifically ones that were provided to this committee of the effect of the old tax system which had a much higher tax rate and marginal tax that has a higher impact on lease expenditures than the SB 21 flat 35 percent rate. This was seen in the depictions of heavy oil, of some of the unconventional, where the state actually had negative value for each barrel produced because of the effect of deducting in the progressivity equation in the old tax system. That was resolved by moving to a flat 35 percent tax.

MR. PAWLOWSKI continued, stating that the idea of separating lease expenses introduces an important policy distortion to the efforts to move a gasline forward. He noted he will address this issue from a "30,000" foot level, which is beyond the detail that the Department of Revenue is concerned about as far as what expenditure is for gas or is for oil. The Point Thomson settlement is really where this issue is coming from, and this settlement gives the lessees three options to maintain the field in its entirety. One option is to build the "cycling project" and recover the hydrocarbons, which at Point Thomson directly come out as condensates in oil from the gas production. Under his interpretation of Amendment 19, the policy call would be that if Point Thomson were to make the investments for oil production and to only produce oil, the lease expenditures would be deductible. So long as that gas was being put back in the ground, and the oil was being produced, all the lease expenditures would be deductible. Therefore, an economic incentive was introduced for the operators at Point Thomson to defer gas production simply to maximize the deductibility of lease expenditures in the production tax system. That, as a fundamental concern, worries him because Point Thomson will be producing oil with the gas. The oil comes out of the gas cycling, so when looking at that option available in the Point Thomson settlement, coupled with this policy call, more than just the economics of that near-term reduction in revenue must be considered. Also needing to be looked at are the economics of the incremental oil production that comes from the "expanding cycling" and the gas production that comes to the state. This was part of the equation that was put into the evaluation of what the appropriate tax rate was when the administration looked

at lease expenditures. So, from a just operational perspective, but more importantly from a policy perspective, the administration would be very concerned about a move to separate lease expenditures on gas for the odd incentives it may create, which are things that were seen under the old tax system.

[3:10:24 PM](#)

REPRESENTATIVE HAWKER endorsed Mr. Pawlowski's comments and said [CSSB 138(FIN) am] creates a new flat tax on gas in the form of a 13 percent royalty-in-kind (RIK) for production taxes. As he mentioned earlier, there has been give and there has been take; the bill before the committee is carefully balanced. The committee cannot keep looking at this just in the places where the state gave; the committee must also look at what the state is taking away, which in this case is an upfront 13 percent taking away of production from the wellhead and the deduction of costs against that is not being allowed. It is a gross tax. But, in that the state is now going to this blended gross and net tax structure - gross on gas, net on oil - the state is still allowing those expenses to get deducted against oil because otherwise, for a fair tax system, the state would have to allow them to be taken against the gross value at which the state is taxing gas or else the state is just going to strand those costs and tell industry that it wants industry to develop gas, but industry does not get the benefit of any of the costs that are incurred to accomplish that task. That is not a business incentive and it certainly is not a policy that [the legislature] wants to be introducing into this statute.

[3:12:23 PM](#)

REPRESENTATIVE KAWASAKI recalled that legislators visited Point Thomson last fall. He requested elaboration on when those plans of development were made and signed and how current the plans are at this point.

COMMISSIONER BALASH answered the work ongoing now was first put forward as a plan of development during the process of dispute and litigation that occurred during the timeframe of 2007-2008. The litigation itself was resolved in 2012 and the work that has been ongoing since has certainly escalated. Two wells were drilled prior to the final settlement. In actual development there has been the installation of the pads, the airport, and this winter's installation of the vertical support members and pipes. A tremendous amount of activity will be taking place

this summer when there is again open water. The initial production system plan was tabled in late 2007, early 2008.

[3:14:44 PM](#)

REPRESENTATIVE KAWASAKI supported Amendment 19, saying he does not know whether it is because of the Point Thomson settlement directly or other factors, but that he certainly wants to see a gasline built. The problem he sees is trying to find nickels to scrape together to finish the state's operating budget. The [Point Thomson operators] ran the numbers as early as 2007 and have said they want to monetize. So, to essentially give [the Point Thomson operators] these expenditures means that the State of Alaska is going to be out a lot nickels.

MR. PAWLOWSKI responded that the changes in SB 21 had negative impact on the financial contributions of the state to the operators and other working interest owners at Point Thomson. The State of Alaska is contributing less to that development through the tax system today.

[3:16:20 PM](#)

REPRESENTATIVE KAWASAKI asked whether it is being said that the ability to give these lease expenditure deductions is part of that payment that is going to make the project go.

COMMISSIONER BALASH replied it is being said that for the economics of gas to make sense, the cost associated with gas must be dealt with. Those costs cannot be stranded. All of the models that [the administration] and the companies have looked at assume a healthy ongoing oil business to carry the costs of the fields at Prudhoe Bay and Point Thomson. If the gas revenues and investment numbers are burdened with the cost of maintaining Prudhoe Bay and Point Thomson, those economics would degrade and potentially degrade rapidly. If those costs are not accounted somewhere and the state tries to take its share of those costs and jam it to the other sponsors, the state is going to wind up in a different place, as will the other sponsors.

MR. PAWLOWSKI added he does not want to leave uncontested that the deductibility of lease expenditures is somehow a trade because no one in the administration who worked through the issue sees it that way. If lease expenditures are prohibited or somehow separated based on gas production, there will be an economic incentive to put gas back in the ground rather than produce that gas to maximize the lease expenditures. It is a

distortion that gets introduced into the decision making process that upsets what really should be a sharing of the cost to the infrastructure and, as has been done in CSSB 138(FIN) am, a greater share of the gas taken as production that is then disposed of for revenue. The policy calls made in SB 21 were not based on a short-term view, but rather a long-term view and how these things operate over the long term. A fundamentally similar policy call in the long term is also being made in CSSB 138(FIN) am with the decision to allow lease expenditures to be deductible.

[3:19:04 PM](#)

CO-CHAIR FEIGE inquired how long the State of Alaska has been offering reimbursements for lease expenditures as part of the fiscal regime.

MR. PAWLOWSKI offered his understanding that lease expenditures, and the deduction for lease expenditures, were first recognized with the passage of the production profits tax (PPT) in the transition from a gross to a net system. They were reaffirmed in Alaska's Clear and Equitable Share (ACES) and were continued in SB 21.

CO-CHAIR FEIGE surmised that if lease expenditures were limited oil-to-oil and gas-to-gas under Amendment 19, then those lease expenditures on infrastructure to produce gas would only be deductible against gas actually flowing down the pipeline.

MR. PAWLOWSKI said he reads Amendment 19 as having no process for carrying forward expenditures, it is not in that profit-share lease. Lease expenditures happen in the year they are incurred. The introduction on page 2, line 2, of the amendment, describes "for a lease or property that produces both oil and gas". If the gas is put back in the ground to re-pressurize in a cycling project, as will be done in the initial production system, the field would only be producing oil. That would be the only product severed from the lease and committed at the point of production. As he interprets Amendment 19, the lease expenditures in that instance would be applicable against the production of oil until gas is produced and then the lease expenditures would be divided when the lease is producing both oil and gas.

CO-CHAIR FEIGE asked whether the lease expenditures would be deferred or not able to be deducted at all.

MR. PAWLOWSKI offered his belief that the entirety of the lease expenditures would be deducted against the oil production in any event.

[3:21:45 PM](#)

CO-CHAIR FEIGE inquired whether the legislature's consultants have anything they would like to add.

JANAK MAYER, Partner, Energy Consultant, enalytica, responded CSSB 138(FIN) am proposes an entirely gross system of tax on gas. The costs are attributed separately to oil and to gas, so there is no ability to deduct those expenditures; it is simply a gross system that disregards the question of upstream costs altogether for that gas. Under Amendment 19, separation is done by saying that capital cost must be separated by its own reserves and operating cost must be separated on production; therefore, he would concur with Mr. Pawlowski that it provides some incentive either to postpone gas production or at least to maximize condensate recovery at Point Thomson to ensure that the maximum amount of liquids is recovered to allow the maximum cost deduction. That may or may not be in the state's interest as much of that is determined by the relative pace of gas production from Point Thomson. Whether that is ultimately in the state's interest is unknown until much additional technical work is undertaken. If they were to be separated, separating them on the basis of reserves for upfront capital costs and production for subsequent operating costs is the only way to do it, but he would concur with the concern that it does put a particular incentive on a particular way of producing the field that may or may not be optimal. Overall, the test is what the total share is that is coming to the state from any tax system. When the numbers are run and enalytica looks at what is proposed, it seems a reasonable share as it is proposed.

[3:23:58 PM](#)

CO-CHAIR FEIGE posed a scenario in which gas condensate cycling proves not to be economic and the Alaska Oil and Gas Conservation Commission allows the Point Thomson operators to blow down the field. He asked whether Amendment 19 would create an obstacle for a gas pipeline to be filled with Point Thomson gas.

MR. MAYER replied he would not go so far as to say it creates an obstacle, but it would somewhat change the incentives producers face when looking at plans of production toward trying to

maximize recovery of condensates, possibly at the expense of the pace of gas production because of the ability to write costs against that oil production if that is included in the initial reserve estimate.

3:25:03 PM

REPRESENTATIVE TARR said that that point seems in contrast to what is being accomplished with the enabling legislation and the other two documents that the state is moving forward on. There may be a brief window in time when that would potentially have the aforementioned negative incentive, she allowed, but it seems that would be such a limited period in time as to not be a real concern because as things move forward, some of these other agreements and commitments are locked in as to what is coming from Prudhoe Bay and Point Thomson. Secondly, if the intent was the allowable deductions, then it would have been cleaner to have an ACES-style deduction of an upfront capital expenditure reimbursement with a timeframe on it, but now is not the time to get into that conversation. Regarding the negative incentive, she inquired whether the time period would be brief.

MR. PAWLOWSKI answered it is a fair point and the degree to which it is or is not an incentive is debatable as the company runs the numbers for its particular situation. Alaska's production tax is by the segment -- the entire North Slope. So, one company's particular view of that situation will depend a lot on the other activities it has ongoing on the North Slope at the time. Regarding consistency with the Heads of Agreement and moving the project forward with the fiscal structure that has been described, the question is whether it would even get to the aforementioned described agreements coming back to the legislature for advancement. He concurred with Mr. Mayer that in evaluating these things the totality of the state's share and the cash the state receives for disposition must be looked at. Additionally, there are nuances in the Point Thomson settlement that may have adverse impacts that the state has not necessarily modeled for going down this road. He deferred to Commissioner Balash to discuss those impacts in the settlement.

COMMISSIONER BALASH explained the matter being referenced by Mr. Pawlowski has to do with field costs. Because of timing considerations and where Point Thomson was at the time that there was a settlement reached on Prudhoe Bay gas, there is a field cost allowance that is a product of a settlement for Prudhoe Bay. Because Point Thomson has the same types of leases, it is likely that an argument would be made by the

lessees that a similar cost allowance mechanism should be included. In anticipation of some of these things, the administration struck an element of the agreement in the settlement that provides there will be no claim for a field cost allowance under the terms of the leases so long as the state's production tax system recognizes upstream costs. So, in all likelihood, Amendment 19 would trigger the undoing of that particular element in the settlement and provide an avenue for the lessees to then seek that upstream cost allowance - that field cost allowance - that would weigh against the state's royalty in a negative manner.

[3:29:20 PM](#)

REPRESENTATIVE KAWASAKI said the committee would not be having this conversation if gas was at \$15 per thousand cubic feet, but that is not the case and the state is challenged. Alaska has been an oil state for a long time and is now transitioning to a gas state and is trying to figure out how these pieces all work together. He asked whether there are examples of other sovereigns that do things differently and do not link oil and gas or when it comes to expenditures in the field.

MR. PAWLOWSKI responded that his general observation is if it can be thought of then there is probably a jurisdiction somewhere in the world that does something similar to it. The diversity of oil and gas tax regimes around the world is mindboggling when getting into the specific nuances in each instance. He deferred to enalytica to provide an answer.

[3:31:00 PM](#)

MR. MAYER said he can think of regimes that distinguish between oil and gas production from the perspective of cost recovery in a number of ways. In production-sharing contracts around the world, it is not unusual to see both oil and gas treated as production-sharing items with the ability to recover costs but to account for them separately and to maintain a separate oil cost account and a separate gas cost account. There are also many regimens that may treat them together for cost purposes under a production-sharing contract but then have an additional pure gross royalty with a gross rate on the gas that is different from the gross rate on the oil. So, that is entirely feasible to do in terms of international comparison and is not uncommon. The questions here are more about specifics of the circumstance -- whether it be the overall nature of what is proposed and how [Amendment 19] might change that and whether

that is a question of incentives for production of Point Thomson or any other number of fields, or the terms of the Point Thomson settlement.

NIKOS TSAFOS, Partner, Energy Consultant, analytica, added that when looking at big gas projects around the world, one of the greatest project facilitators in terms of the projects moving forward is having liquids with the gas. One project in Australia started the liquids part of the project first to generate revenue to pay for the gas later on, which is in some ways similar to Alaska. In terms of the tax system, the standard practice is generally that the economics of the oil and liquids assist the development of the gas, which is usually more costly and less economic. From an accounting perspective there are different ways to do that. Even in a place like Qatar where gas is cheap to produce, the gas is piggybacked on the oil production, the condensate production, to drive the economics of the projects. Therefore it is pretty standard practice internationally to have the gas piggyback on the economics of the oil to make the gas look like an attractive project.

[3:33:54 PM](#)

REPRESENTATIVE KAWASAKI queried whether it is limited to production-sharing countries or whether there are sovereigns that do not adopt production-sharing agreements.

MR. MAYER responded that when talking about deducting costs in a fiscal regime, typically one of two things is talked about: either a profit-based taxation system or production-sharing contract. At the moment, he said, he cannot think of examples of profit-based taxation systems where one distinguishes between the two. What is proposed here by being a profit-based system on oil, but a gross system on gas, is unusual, but makes a great deal of sense for the purposes that have been before in terms of establishing a state gas share. So, the only logical comparison he can find are ones in the world of production-sharing contracts rather than the world of profit-based tax systems. In further response, Mr. Mayer said profit-based taxation systems by and large tend to be simple uniform taxes applied to all hydrocarbons without distinguishing between the two.

[3:35:19 PM](#)

REPRESENTATIVE TARR offered her understanding that the field cost allowance would typically not be 100 percent of the cost; she presumed there would be some percentage or a cap. Even if

the state went to something that could trigger that provision, the state would probably negotiate something that was a little less costly to the state than 100 percent. She requested analytica to comment in this regard.

MR. MAYER deferred to Commissioner Balash as someone who is more familiar with the details of settlement negotiation.

COMMISSIONER BALASH said the field cost allowance is expressed as an amount of money per unit of gas. So, yes, in that regard a "cap" could be put on it. That is something that perhaps could be negotiated here and, yes, that cost would be borne by the state's royalty gas. The question would then be what the state is going to do about its tax gas. If the same charge applied, would it be fixed? Yes, it would. However, there would still be these costs that from the state's perspective look like they go away, but they will be borne by somebody. They will burden the economics of hydrocarbon production on the North Slope. The state can pretend it is doing something to cap or limit the costs, but they do not go away. If a positive outcome is wanted for the overall prospects of this project moving forward, what is come to in the body of the Heads of Agreement is a way to be a partner in the overall project, where the state is going to pay its share of the costs. If the state wants to move away from that, if the state is going to try avoiding paying its share of the cost, there then needs to be some fundamental re-thinking of things.

[3:37:49 PM](#)

REPRESENTATIVE TARR recalled discussion about the state having skin in the game but said none of those talks included this potentially \$375 million as part of that. What would be appropriated this year was looked at, as were other decision making points and what financial commitments would be necessary through the stage-gated approach. She said she feels this was not fully considered as part of the state's commitment and perhaps this should have been brought up sooner. Last year, while doing reform, the theme of incentivizing was that it would only be done based on production, whereas the previous regime allowed these deductions for capital costs. Thus, it has not been consistent in her mind and she is concerned about the financial impact of that on an ongoing basis for the next several years.

CO-CHAIR FEIGE maintained his objection to Amendment 19.

[3:39:36 PM](#)

A roll call vote was taken. Representatives Tarr and Kawasaki voted in favor of Amendment 19. Representatives Seaton, P. Wilson, Hawker, Olson, Saddler, and Feige voted against it. Therefore, Amendment 19 failed by a vote of 2-6.

[3:40:24 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 20, labeled 28-GS2806\A.65, Bullock, 4/3/14, which read:

Page 15, following line 30:

Insert a new bill section to read:

"* **Sec. 16.** AS 38.05 is amended by adding a new section to read:

Sec. 38.05.023. Expansion of a North Slope natural gas project. An agreement or contract negotiated under AS 38.05.020(b)(11) or other agreement or contract in which the state is a party and that is associated with a North Slope natural gas project may allow all parties the benefit of cost savings that result from the expansion of the project. However, the agreement or contract must provide that an expansion that results in an increase in the cost of transportation may not, for a party that does not participate in the expansion, increase the transportation cost for each 1000 cubic feet of natural gas above the highest cost of transportation for that party before the expansion."

Renumber the following bill sections accordingly.

Page 17, line 24:

Delete "sec. 17"

Insert "sec. 18"

Page 21, line 16:

Delete "sec. 27"

Insert "sec. 28"

Page 25, line 9:

Delete "sec. 30"

Insert "sec. 31"

Page 31, line 18:

Delete "sec. 37"

Insert "sec. 38"

Page 53, lines 24 - 25:

Delete "sec. 23"

Insert "sec. 24"

Page 56, line 6:

Delete "16, 17, 23 - 27, 29, 30, 37, 39, and 55 - 61"

Insert "16 - 18, 24 - 28, 30, 31, 38, 40, and 56 - 62"

Page 56, line 8:

Delete "Section 38"

Insert "Section 39"

Page 56, line 9:

Delete "secs. 62 and 63"

Insert "secs. 63 and 64"

CO-CHAIR FEIGE objected for purposes of discussion.

REPRESENTATIVE SEATON explained Amendment 20 addresses expansion of a North Slope project that goes forward. He recalled there was discussion about allowing benefits to parties that were not parties to the expansion and were not providing in the costs and that on a per-unit-volume basis they could receive a benefit for that. However, if it costs more on a secondary expansion, Amendment 20 would also mean that the cost for non-participating parties could not rise above those parties' original per-unit-volume cost; so everyone would share in both of those. Otherwise, there could be an expansion that is going to be avoided because all of that further cost would be borne by so much differential in the price of the gas for transportation. Amendment 20 means that no party will ever have to pay more than it did originally, but at least if there is an expansion to provide more throughput, then the cost would at least be shared somewhat, but no further than any party's original cost.

[3:42:18 PM](#)

CO-CHAIR FEIGE requested the administration to comment on the amendment.

MR. PAWLOWSKI said the administration understands the issue behind Amendment 20 and the interest described by the sponsor is in allowing rates in an expansion to rise back to the rate that

was charged prior to the expansion. That is a concept loosely related to rolled-in rates. When the administration started talking with the parties about this project, it became clear that much of the thinking related to expansions, and the treatment of expansions, changes when moving to an LNG project. While the pipeline is much talked about in this project, it really is an LNG project with a pipeline and a treatment plant attached. An LNG project, by its nature, is market constrained. The addition of a train is necessary for large volumes of expansion. When he looks at Amendment 20, a particular scenario troubles him deeply. To illustrate, he posed a scenario of an in-state gas price that is based on a hypothetical wellhead cost of \$2 plus a pipeline tariff of \$4, so that gas for Alaskans would be \$6 leaving the pipe. In this scenario there is then an expansion that the state does or does not participate in and the tariff drops to \$2 so that the in-state gas price is now \$2 wellhead plus \$2 transportation, effectively lowering the in-state gas price. Then let's say there is another expansion after a few more years, but this time the costs in the expansion roll back up to the original \$4 and in effect the in-state gas price goes back to \$6. This may set up the dynamic of a political conflict around an expansion. The expansion principles in the Heads of Agreement do not allow specifically for this rolling back up of the cost to the original tariff; it allows for the opportunity for the state or a party of the state to initiate an expansion, provide that access, but it is really built on the premise of live and let live and let the economics drive the expansions. In that this is counter to expansion principles, he said he believes the administration has a concern with Amendment 20, as well as for the fundamental scenario that it could set up in the state related to how the citizens of Alaska might view an expansion and the impact on their in-state rates. There are multiple other scenarios in which gas that the state has no fiscal interest in comes into the line, and while the state loves the construction, the jobs, and the expansion, now the state's tariff goes back up and that will come out of the price of the gas that the state is selling on the market, so state revenues might go down. Those are all things that can get worked out commercially. Putting this principle as a limiting on the agreement or contract runs counter to the static nature of an LNG project and gives the administration some concern.

COMMISSIONER BALASH concurred with Mr. Pawlowski and respectfully opposed Amendment 20.

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REPRESENTATIVE HAWKER opposed Amendment 20, saying he will vote against the amendment for the aforementioned reasons. He said he also continues to be concerned about legislators imposing micromanagement points and constraints into the negotiation process. The MOU and the HOA are a framework for conducting negotiations. However, he noted, he does not want his no vote on Amendment 20 to in any way imply a constraint on those negotiations should they actually find a time and a place to incorporate some element of the amendment or what is proposed in the amendment if it became appropriate in the process. Right now, however, there is a huge risk in making it a statutory constraint.

MR. PAWLOWSKI thanked Representative Hawker for the statement, saying it made him realize that within the MOU with TransCanada is a particular arrangement where the state can elect for rolled-in rates on certain parts of the pipe. Given that that would be a contract under [Amendment 20], [Representative Hawker's] clarification on the record is important because the administration will look to the record during the discussion for guidance as it moves into negotiations.

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REPRESENTATIVE SEATON related that in previous discussion it was said the State of Alaska was probably going to be the outlet for expansions in the pipeline. If that is the case, any secondary expansion that would increase the cost probably means that the project will not go forward. It also might mean that even if one of the parties finds other gas and if none of the parties' rates can go up, including the state's rate, the project will not go forward. The question is whether expansion in the pipeline is wanted. "Do we want to say that ... if it goes down further on the second expansion everybody benefits, but if the cost is higher to get expansion in this pipeline, do we want to make that happen?" It will not happen if the cost is solely borne by the expansion and therefore the economics become terribly offset. The parties going into this project are saying they will sanction the project at whatever base rate they have for the throughput for which it is designed. If the parties are now saying that on the first expansion [the costs] will go down and will never go up such that for a second expansion the costs cannot go up so the expanding party must bear that whole expansion cost, then the expansions will not take place because the expanding party bears all of the cost, even above the original cost. Representative Seaton said is not looking for the AGIA 115 percent of original rate, but maintained that it is

very reasonable to say that to stimulate expansions that if the new expansions are higher than the original, a party's rate cannot go above what it originally said was economic to have the project go forward. This is really important to enable future expansions to take place, he opined. There will be a big economic drag on expansions if there is not some provision like this because the transportation cost of that other expansion will be so high and un-uniform from what was determined to be economical in the first place, which will result in gas being left in the fields. That is not in the state's benefit and the whole idea was that the state would probably be the expansion party for new people that find fields. It does not have to be for LNG, it could be a mine that needs a lot of gas and which would require an expansion on part of the pipeline to do that; but if the cost is totally borne on just that expansion, the state might not be able to do that. Therefore, Amendment 20 is a reasonable way to ensure future expansions.

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CO-CHAIR FEIGE noted that for the administration speaking as a future partner in this project, it would certainly be in the state's best interest to keep the state's cost of transportation at a level that is predictable and is not going to rise because that affects the state's economics as well as the economics of the other partners. It is to the state's advantage as a partner that if there is an expansion that results in lower overall unit costs to take advantage of that decrease, which is a benefit that cannot necessarily be planned for and the economics of the original investment are not necessarily based on. The problem does come in if there is a subsequent expansion, but it does raise a legitimate issue that if the additional expansion capacity is not fully utilized on the first round of expansion it does not seem unfair. Depending on the nature of what the expansion is, it could be that the additional expansion actually results in a further lowering of per unit costs, in which case all parties would be able to enjoy the benefit of further lowering of those unit costs. But, if for some reason, by the nature of the expansion the costs were to rise, a disproportionate share of that operating cost would be placed on one expansion party, which could be the state if it were a partner to the secondary expansion, or it could be placed on the additional expansion partner, perhaps affecting the economics such that that expansion does not happen. It is in the state's best interest to have the expansion happen. It is in the [interest of the] original investors in this project to have a cap on how high their transportation costs could go. He

therefore inquired where the middle ground is [in relationship to Amendment 20].

The committee took an at-ease from 3:55 p.m. to 4:13 p.m. at the request of Mr. Pawlowski so he could look up the information to provide an answer to Co-Chair Feige.

4:13:45 PM

MR. PAWLOWSKI, responding to the question about a middle ground in relation to Amendment 20, noted that the expansion principles in the Heads of Agreement were a carefully balanced back and forth. It was a place where [the administration] found TransCanada's involvement to be particularly important from the state's perspective. The terms enable expansions, but there are potentially economic impediments which are the economic realities of what it will take to do an expansion. He divided the question into two types of expansions. He characterized the first type of expansion as a relatively small-scale in-state expansion where somebody finds a small amount of gas, in the range of 20-50 million cubic feet a day, and wants to move it to a mine. The [Alaska LNG Project] pipe will be designed with expansion capacity available within it for efficient expansions, which is where there is not much or any incremental capital cost to put a bit more gas in the pipe. Compressors run better in the winter, so there can be more capacity one time of the year and less capacity at another time of the year. During the Pre-FEED stage, work will be done to understand the sizing and the benefits of those types of expansions. There is also an incremental expansion, which would require one compressor or a relatively modest capital increment that could be a benefit to the expander. The second type of expansion is one that would pose a substantial challenge to the state. That is addition of a new train -- where it is not the pipe that is the issue, but the market beyond Alaska that is really the constraint. The LNG plant envisioned today is for three trains at a cost of \$22-24 billion. The addition of a fourth train at the LNG facility is a multi-billion dollar investment. An expansion to carry additional large-scale reserves will have to be large enough to justify that expansion. Justifying the additional investment necessary to open that additional window to the market is driven more by the cost of the train than the addition of expenditures in the midstream in the pipeline or the gas treatment plant.

4:17:02 PM

MR. PAWLOWSKI continued his response, saying the impact that this type of large-scale expansion potentially has on Alaska's share of the project is important because the state's revenues come after cost. If it is a situation where the state has enjoyed the benefits of the efficient expansions by a lowering of the state's rates for several years and then new gas comes into the project that would increase those rates, even if it is back to the initial rate, the result would be a reduction in the state's revenue from where the state was at the time. [Amendment 20] would set up that concern, particularly when looking to the future and seeing that there are different state fiscal interests in different gas; for example offshore gas. Today the state does not have revenue sharing for offshore gas development. The state likes the jobs, throughput, expansion, and all the economic activity that creates, but from a fiscal perspective the state does not, as yet, have revenue sharing for that gas being developed. So, the state would have a different interest in how that expansion gets treated. Those were the things [the administration] thought through in crafting the expansion principles in tension with the other parties that are looking out for their interests as well. The gives and the takes must be looked at in any of these agreements. In the expansion principles, the unilateral ability for one of the parties to initiate an expansion, and for that expansion to proceed, is a powerful principle that protects the opportunity for an expansion. There are a range of economic scenarios, but [the administration] believes it has landed on, at this stage, an opportunity to work through some of these issues as things continue. The administration is not sure it sees a potential for a middle ground under Amendment 20, given the uncertainty of the project at this stage, all of the potential scenarios where a downside is seen for state, and pending actual detailed design of the size of the pipe and the opportunity for efficient expansion in-state.

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REPRESENTATIVE KAWASAKI supported Amendment 20, saying he can imagine a pipeline going from the North Slope to the Kenai area with an offtake point at Fairbanks taking a significant amount of gas, leaving empty capacity below Fairbanks that could be filled. Below Fairbanks are the Nenana Basin and the Susitna Basin. It is clear that expansion of the project would have to have a benefit of cost savings for all parties. During most of the discussions it was said that the transportation tariff is something that is negotiated and that happens under commercial

agreements. Amendment 20 is necessary to potentially get small players into the pipe.

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REPRESENTATIVE P. WILSON drew attention to the Heads of Agreement, page 21, Appendix A, which explains the pro-expansion principles. She noted [A.1.1] states that following the start-up of the Alaska LNG Project, any Alaska LNG party may initiate the process for an expansion in which the party has an interest unless the expansion would result in any of the four events listed in that section. [A.1.1] concludes with the statement that expansions can proceed if they meet the criteria in Section A.1.1. She further observed that A.1.2 states the expansion parties will pay all of the costs. She asked whether there is anything in the appendix that would help to better explain this.

COMMISSIONER BALASH responded these principles are just that -- principles. There needs to be much more detailed agreements to further define and refine the ways in which costs will be allocated and borne between and among the parties and from the parties to their shippers. In the larger sense, what is had is an agreement on how the capital costs are going to be split between the parties. Each party is going to pay its share of the project, which gets to the pipe and a pipe concept. The things that are going to get tricky and require a lot more detail are the operating costs that get borne by each party; in all likelihood that is going to reflect the party's recalculated equity interest in the project as expansions occur and as capacity is increased. Those are going to be the kinds of things that will be seen in subsequent rounds of agreements. Many people are still struggling with the difference between what is being talked about here and now in this body of agreements compared to HB 4 and the ASAP line, and compared to the AGIA and Denali [natural gas pipeline] efforts that were looking at overland projects where there was a single project with a single tariff. Because this project goes down an undivided joint interest approach pathway, there is not a single tariff that gets applied to all parties. Thus, the state will be free to order its financing and its tariff the way it wants to for the state's purposes on its segment of the pipe. But, the other three sponsors - BP, Exxon, and ConocoPhillips - are not necessarily going to have tariffs. There will be a division of costs up front in the capital and there will be a division of cost as things go forward in the operation of the facilities. In regard to questions around the cost of transportation, the

language in Amendment 20 does not fit in this particular commercial construct.

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COMMISSIONER BALASH continued, noting that there is some initial understanding of what the capacity of the pipe is going to be at the outset relative to the liquefaction capacity. Based on the initial understandings, there is going to be sufficient capacity in the pipe through its efficient expansions to increase the capacity in the pipe enough to add at least one more train of liquefaction in Nikiski. There would still be additional room in the pipe for in-state deliveries, be it for a mine or some other smaller industrial load. People need to keep mind that the size of a train in this case is going to be on the order of 750-800 million cubic feet per day of gas. That is large. In regard to making room for small players, small players like Brooks Range Petroleum Corporation and Great Bear Petroleum LLC on the North Slope are out of the game when it comes to adding an entire train of liquefaction. A company like Anadarko Petroleum Corporation, with a very large land position in "the foothills," might find sufficient reserves. However, many of Anadarko's leases are not on state land but on private or federal land from which the state gets no royalty and no tax gas. So, the way each circumstance and scenario is viewed is going to vary.

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COMMISSIONER BALASH continued further, pointing out that in this next phase DNR will be very diligent in understanding and obtaining from the other sponsors the kind of representations and warranties that can be counted on in terms of what the capacities are expected to be. That way it will be known how many efficient expansions and how much capacity there will be in the pipe before starting to run into these per-unit increases in cost that might burden the economics relative to the day-one rates or costs. He sympathized with the sponsor's intention in Amendment 20, but said at this particular point in time it must be kept in mind that there is pipe, a gas treatment plant, and liquefaction, and all three are going to have somewhat different costs and may or may not be needed for a given commercial player down the road. Some players might only need pipe room and no treatment, others might need treatment and pipe, and some might not need liquefaction service at all. Amendment 20's language raises many questions with regard to how this would actually play out. The agreement or contract under AS 38.05.020(b)(11)

is an agreement negotiated by DNR, so that is going to be midstream services agreements with TransCanada and/or AGDC for treatment, pipeline, and liquefaction services, and maybe marine or marketing services, but that does not necessarily make [DNR] a party to agreements in that case for the equity and the cost structure of the project itself. [The department] will not necessarily be signing agreements with the producers, so Amendment 20 does not actually get to where folks want to go from this policy perspective. The amendment has references to the project, but does not distinguish between the components of the project. It may be that one component or another is actually the bottleneck. He said he is left in an awkward place here because he believes that the policy principle is already reflected in the Heads of Agreement in terms of ensuring an accessible and expandable pipe that will encourage and incentivize additional exploration. Getting into a particular conversation at this juncture is a struggle because right now it is unknown as to the circumstances under which costs will or will not go up, or how much they will or will not go up.

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REPRESENTATIVE P. WILSON understood Commissioner Balash to be saying that Amendment 20 would severely constrain what is going to be happening in the next 18 months because those types of things will be talked about in all different kinds of ways.

COMMISSIONER BALASH replied correct, a number of questions are going to be faced and they are going to be iterative policy developments as the base project is examined in regard to what it looks like and what those capacities are. There has been discussion with the other project sponsors about, for example, if the pipe is 42 inches whether another train of liquefaction could be added in Nikiski and are the sponsors sure. What if the sponsors are not sure? What would be the incremental cost of going to 44 inches or all the way to 48 inches? Roughly speaking, it is thought that that is a difference in cost of about \$600 million. Nobody wants to overpay for pipe and pipe capacity that is not needed, but maybe there is a scenario where it makes sense for the state to do that. And that invites all kinds of questions as to how many people make 48 inch pipe. Will this drive costs in a different way? These considerations and questions will be looked at very hard. How those considerations are ultimately weighed will be one of the things discussed with legislators in these executive sessions as the project goes forward to ensure that things are appropriately balanced for the long term. This will get to be clearer and

there will be a better understanding of what the opportunity and what the costs are for a given expansion policy depending upon the size and depending upon the nature of those more detailed operating agreements as they get refined in the next two years.

[4:34:02 PM](#)

MR. PAWLOWSKI added he sits as the Department of Revenue's designee on the board of the Alaska Industrial Development and Export Authority (AIDEA). This means he gets to work with the other LNG project that was authorized by this committee last year. To provide context to the previously mentioned 750-800 million cubic feet a day for an LNG train, he pointed out that the expansion being talked about for serving customers in the core community of Fairbanks is - per year - 500 million cubic feet. Thus, the daily throughput in that expansion is bigger than the entire annual use. He said he is pointing this out to help people realize the scale of difference when talking about in-state demand and in-state work versus the larger, export-driven project that is being described here today.

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CO-CHAIR SADDLER noted that both the Heads of Agreement and Amendment 20 agree in principle and in the statute that all parties can benefit from expansion. But at the heart of Amendment 20 seems to be the expansion that increases the cost and that the cost of that expansion can be shared with the non-expansion parties only up to their highest level. He asked why somebody would make an investment in expansion that raises their transportation costs.

MR. PAWLOWSKI replied the person may look at the value received for the sale of the commodity. Having a larger volume of that commodity may exceed the incremental increase in the expansion cost across all units that are being sold. So, the volume in the market goes up higher than the cost in midstream. Amendment 20 would prohibit the negotiating of a contract that on page 22 of the Heads of Agreement provides that non-expansion parties will be kept whole and will not bear any costs related to the expansion. So, the principal disconnect is in the sentence that the administration could not move forward with agreements relating to the principles in the Heads of Agreement.

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REPRESENTATIVE TARR said the concern is that the words can be there, but can be constructed in such a way that expansion is discouraged, in which case the words are meaningless. Unclear to her in the HOA is why it was not enough in A.1.2 [pages 21-22, Appendix A] to say that only expansion parties will pay for the cost. It seems that would be sufficient to protect the non-expansion parties. She inquired why it was also necessary to say that the non-expansion parties will share in the benefits.

MR. PAWLOWSKI answered from the state's perspective, noting the state is a participant and is co-investing in the project. By building the project an opportunity is created for an expansion to happen. If there is no pipe, no LNG plant, there is never an expansion. So, an opportunity is created for another party to come in and benefit from the initial installation of the infrastructure. The state looks at that as well and says if there is an investment by another party that would bring gas through the project that the state may not have an interest in, should the state not benefit simply because that is a policy call? [The administration] looked at it and said there are many instances where the state may not be involved at all in an expansion, but the state through its co-investment, created the opportunity for that expansion to happen. To the extent that in-state demand can benefit, to the extent that state revenues, state royalty revenues, all benefit, that opportunity was created by this body and subsequent bodies' decisions to take that step and enable that infrastructure. So, that is the underlying principle that was part of the give and take with the other side of that, which is if a party is willing to pay the cost the other parties are not going to fight over whether the expansion can proceed. The expansion can proceed in that unadulterated opportunity to expand the infrastructure; this is a powerful tool for the state in enabling access. He pointed out that there is an interesting division in Appendix A between A.1 and A.3. Section A.3 talks about a new liquefaction train, he said, because this is not just about the pipe. The opportunity for any party, which in this instance would be AGDC, to initiate the process of installing a new train is not actually an expansion. But, it is a very powerful tool to enable either one producer or a consortium of producers on the North Slope to have an opportunity for an outlet to serve foreign markets with that gas. It is the totality that led to the policy call, in addition with looking at the different scenarios where there is private land or offshore. The state does not have the same fiscal interest in every instance in this project the way the state may have had going to a deeply liquid market with just one simple piece of infrastructure, which is

complicated in its own right but not to the degree that the LNG project is.

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REPRESENTATIVE SEATON pointed out the project has been brought to legislators with the idea that the state and TransCanada are going to be the primary expansion parties for new players on the North Slope. That is one of the underlying principles with all the trillions of cubic feet of gas that are out there for development on state and other land. The question is whether the expansion costs will be [high] enough that the expansion does not take place. The principle of not raising costs above what was initially agreed on in the initial project makes a lot of sense. The theory behind Amendment 20 is to ensure the expansion will work. A big element behind why TransCanada should be involved is because TransCanada, like the state, is interested in expansions. Yet, if we are under the circumstance that the expansions are constrained because all the costs, if they are costs for a secondary expansion, are going to have a high economic cost and make it unprofitable, then the expansion would not happen. There are private and federal lands, but what is mostly being looked at is the probability on state lands from which the state receives royalty and taxes. Representative Seaton said he is very interested in staying with the principles under which this project has been brought to the legislature. There are many different issues, he allowed, and maybe it is not the right time for making this decision. However, he is glad for having this conversation and that DOR and DNR are well aware that it is something that legislators want to have front and center as things go forward. He withdrew Amendment 20.

[4:43:17 PM](#)

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

[4:44:19 PM](#)

ADJOURNMENT

The House Resources Standing Committee was recessed at 4:44 p.m. to be continued on April 6, 2014, at 1:00 p.m.