

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

April 9, 2014

1:05 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

COMMITTEE SUBSTITUTE FOR SENATE BILL NO. 138(FIN) AM

"An Act relating to the purposes, powers, and duties of the Alaska Gasline Development Corporation; relating to an in-state natural gas pipeline, an Alaska liquefied natural gas project, and associated funds; requiring state agencies and other entities to expedite reviews and actions related to natural gas pipelines and projects; relating to the authorities and duties of the commissioner of natural resources relating to a North Slope natural gas project, oil and gas and gas only leases, and royalty gas and other gas received by the state including gas received as payment for the production tax on gas; relating to the tax on oil and gas production, on oil production, and on gas production; relating to the duties of the commissioner of revenue relating to a North Slope natural gas project and gas received as payment for tax; relating to confidential information and public record status of information provided to or in the custody of the Department of Natural Resources and the Department of Revenue; relating to apportionment factors of the Alaska Net Income Tax Act; amending the definition of gross value at the 'point of production' for gas for purposes of the oil and gas production tax; clarifying that the exploration incentive credit, the oil or gas producer education credit, and the film production tax credit may not be taken against the gas production tax paid in gas; relating to the oil or gas producer

education credit; requesting the governor to establish an interim advisory board to advise the governor on municipal involvement in a North Slope natural gas project; relating to the development of a plan by the Alaska Energy Authority for developing infrastructure to deliver affordable energy to areas of the state that will not have direct access to a North Slope natural gas pipeline and a recommendation of a funding source for energy infrastructure development; establishing the Alaska affordable energy fund; requiring the commissioner of revenue to develop a plan and suggest legislation for municipalities, regional corporations, and residents of the state to acquire ownership interests in a North Slope natural gas pipeline project; making conforming amendments; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 138

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

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

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

02/20/14 (S) MINUTE(RES)
02/21/14 (S) RES AT 8:00 AM BUTROVICH 205
02/21/14 (S) Heard & Held
02/21/14 (S) MINUTE(RES)
02/21/14 (S) RES AT 3:30 PM BUTROVICH 205
02/21/14 (S) Heard & Held
02/21/14 (S) MINUTE(RES)
02/24/14 (S) RES RPT CS 2DP 4NR 1AM NEW TITLE
02/24/14 (S) DP: GIESSEL, MCGUIRE
02/24/14 (S) NR: FRENCH, MICCICHE, BISHOP,
FAIRCLOUGH
02/24/14 (S) AM: DYSON
02/24/14 (S) RES AT 8:00 AM BUTROVICH 205
02/24/14 (S) -- MEETING CANCELED --
02/24/14 (S) RES AT 3:30 PM BUTROVICH 205
02/24/14 (S) Moved CSSB 138(RES) Out of Committee
02/24/14 (S) MINUTE(RES)
02/25/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
02/25/14 (S) Heard & Held
02/25/14 (S) MINUTE(FIN)
02/25/14 (S) FIN AT 5:00 PM SENATE FINANCE 532
02/25/14 (S) Heard & Held
02/25/14 (S) MINUTE(FIN)
02/26/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
02/26/14 (S) Heard & Held
02/26/14 (S) MINUTE(FIN)
02/27/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
02/27/14 (S) Heard & Held
02/27/14 (S) MINUTE(FIN)
02/28/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
02/28/14 (S) Heard & Held
02/28/14 (S) MINUTE(FIN)
03/03/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/03/14 (S) Heard & Held
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03/04/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/04/14 (S) Heard & Held
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03/05/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/05/14 (S) Heard & Held
03/05/14 (S) MINUTE(FIN)
03/05/14 (S) FIN AT 5:00 PM SENATE FINANCE 532
03/05/14 (S) Scheduled But Not Heard
03/06/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/06/14 (S) Heard & Held
03/06/14 (S) MINUTE(FIN)
03/07/14 (S) FIN AT 9:00 AM SENATE FINANCE 532

03/07/14 (S) -- MEETING CANCELED --
03/10/14 (S) FIN AT 9:00 AM SENATE FINANCE 532
03/10/14 (S) Heard & Held
03/10/14 (S) MINUTE(FIN)
03/10/14 (S) FIN AT 5:00 PM SENATE FINANCE 532
03/10/14 (S) Heard & Held
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)	Heard & Held
04/04/14	(H)	MINUTE(RES)
04/05/14	(H)	RES AT 10:00 AM BARNES 124
04/05/14	(H)	Heard & Held
04/05/14	(H)	MINUTE(RES)
04/06/14	(H)	RES AT 1:00 PM BARNES 124
04/06/14	(H)	Heard & Held
04/06/14	(H)	MINUTE(RES)
04/07/14	(H)	RES AT 1:00 PM BARNES 124
04/07/14	(H)	Heard & Held
04/07/14	(H)	MINUTE(RES)
04/08/14	(H)	RES AT 8:00 AM BARNES 124
04/08/14	(H)	Heard & Held
04/08/14	(H)	MINUTE(RES)
04/08/14	(H)	FIN AT 8:30 AM HOUSE FINANCE 519
04/08/14	(H)	-- MEETING CANCELED --
04/08/14	(H)	RES AT 4:30 PM BARNES 124
04/08/14	(H)	Heard & Held
04/08/14	(H)	MINUTE(RES)
04/08/14	(H)	FIN AT 6:00 PM HOUSE FINANCE 519
04/08/14	(H)	-- MEETING CANCELED --
04/09/14	(H)	RES AT 8:00 AM BARNES 124
04/09/14	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

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

POSITION STATEMENT: Answered questions during the hearing on CSSB 138(FIN) am as Commissioner-appointee to the Department of Natural Resources.

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

POSITION STATEMENT: Answered questions during the hearing on
CSSB 138(FIN) am.

DON BULLOCK, Attorney
Legislative Legal Counsel
Legislative Legal and Research Services
Legislative Affairs Agency
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on
CSSB 138(FIN) am.

MILES BAKER, Director
Government Relations and External Affairs
Alaska Gasline Development Corporation (AGDC)
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on
CSSB 138(FIN) am.

ACTION NARRATIVE

[1:05:49 PM](#)

CO-CHAIR ERIC FEIGE called the House Resources Standing Committee meeting to order at 1:05 p.m. Representatives Seaton, Tarr, Kawasaki, Hawker, Johnson, P. Wilson, Saddler, and Feige were present at the call to order. Representative Olson arrived as the meeting was in progress.

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

[1:06:06 PM](#)

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."

[1:06:18 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 43, labeled 28-GS2806\I.A.100, Bullock, 4/7/14, which read:

Page 1, line 7, following "on gas;":

Insert "**relating to a report and recommendations by the commissioner of natural resources regarding the delivery and availability of North Slope natural gas in the state, including the identification of risks and recommendations for mitigation;**"

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:

REPORT AND RECOMMENDATIONS BY THE COMMISSIONER OF NATURAL RESOURCES ON THE DELIVERY AND AVAILABILITY OF NORTH SLOPE NATURAL GAS IN THE STATE; IDENTIFICATION OF RISKS AND RECOMMENDATIONS FOR MITIGATION. (a) The commissioner of natural resources shall prepare and make available to the legislature a report on a plan and alternatives to make North Slope natural gas available for delivery and use in the state. The report must address

(1) the means by which North Slope natural gas may be delivered for use in the state;

(2) the anticipated benefits, risks, and liabilities associated with the sale by the state to utilities and other customers in the state of natural gas received by the state as royalty in kind or as payment of tax;

(3) the effect and consequences, including the fiscal effect and liability to third parties, of the state's transport of a reduced amount of natural gas south of an in-state delivery point or underutilizing capacity in a liquefied natural gas plant; and

(4) other issues the commissioner of natural resources determines are relevant to the delivery and use of North Slope natural gas in the state and should be considered by the legislature.

(b) In conjunction with the report in (a) of this section, the commissioner of natural resources shall recommend the means for eliminating or minimizing the risks and liabilities identified in the report. The recommendations for minimizing risk and liabilities while still allowing the state to meet the natural gas requirements of residents of the state may include authorizing the commissioner of natural resources to

(1) negotiate agreements with other shippers to provide natural gas to the state in proportion to the shipper's share of the capacity in a North Slope natural gas project for the purposes of maintaining balance in the system downstream of a delivery point;

(2) acquire additional incremental transportation capacity on an as-needed basis to meet demand for natural gas in the state; or

(3) make unused transportation capacity held by the state available to other shippers subject to terms that do not reduce the state's receipt of

revenue below the amount the state would receive if the state's gas were not sold in the state.

(c) The commissioner of natural resources shall make the report and recommendations required by this section available to the legislature on or before the date a firm transportation services agreement in a North Slope natural gas project to which the state is a party is submitted to the legislature for approval.

(d) In this section, "North Slope natural gas project" has the meaning given in AS 38.05.965, as amended by sec. 23 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"

CO-CHAIR SADDLER objected.

REPRESENTATIVE TARR explained Amendment 43 directs that a report be provided to the legislature to discuss an in-state pipeline and the use of in-state gas. The amendment is related to the 3/26/14 letter sent to Co-Chairs Feige and Saddler from Representatives Tuck, Kawasaki, and Tarr, which asked the following questions: Who will supply gas for in-state use? Who will be penalized for selling gas in-state? Can we ensure in-state gas is affordable? Are we bearing too much of the burden for supplying in-state gas? Can Cook Inlet producers benefit? She concluded, saying Amendment 43 will allow for a process to report to the legislature the answers to the above questions.

[1:07:45 PM](#)

CO-CHAIR FEIGE requested the administration's position on Amendment 43.

JOE BALASH, Commissioner, Department of Natural Resources (DNR), speaking as Commissioner-appointee to DNR, informed the committee the administration supports the overall intent of the amendment, with reservation. He directed attention to the amendment, beginning on page 2, line 6, after "report" and continuing through line 16, which read:

The recommendations for minimizing risk and liabilities while still allowing the state to meet the natural gas requirements of residents of the state may include authorizing the commissioner of natural resources to

(1) negotiate agreements with other shippers to provide natural gas to the state in proportion to the shipper's share of the capacity in a North Slope natural gas project for the purposes of maintaining balance in the system downstream of a delivery point;

(2) acquire additional incremental transportation capacity on an as-needed basis to meet demand for natural gas in the state; or

(3) make unused transportation capacity held by the state available to other shippers subject to terms that do not reduce the state's receipt of revenue below the amount the state would receive if the state's gas were not sold in the state.

COMMISSIONER BALASH said the administration would support the amendment if the above identified language were removed.

REPRESENTATIVE HAWKER said the aforementioned language is very problematic. He suggested that many of the questions are answered in the project plan and expressed his preference for DNR to answer questions before the legislature, rather than through a report added to statute.

REPRESENTATIVE KAWASAKI pointed out that the 2011 Alaska Gasline Development Corporation (AGDC) small pipeline proposal is much different than [the Alaska LNG Project] proposal; many of the concepts materially change AGDC. He opined it is in the state's best interest to know how the delivery and offtake points are going to impact aspects of the project, such as the tariffs. He urged the committee to support [the intent of the amendment] in uncodified law or elsewhere.

[1:11:30 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 1 to Amendment 43, as follows:

Delete the following:

The recommendations for minimizing risk and liabilities while still allowing the state to meet the natural gas requirements of residents of the state may include authorizing the commissioner of natural resources to

(1) negotiate agreements with other shippers to provide natural gas to the state in proportion to the shipper's share of the capacity in a North Slope natural gas project for the purposes of maintaining balance in the system downstream of a delivery point;

(2) acquire additional incremental transportation capacity on an as-needed basis to meet demand for natural gas in the state; or

(3) make unused transportation capacity held by the state available to other shippers subject to terms that do not reduce the state's receipt of revenue below the amount the state would receive if the state's gas were not sold in the state.

There being no objection, Amendment 1 to Amendment 43 was adopted.

[1:13:01 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 2 to Amendment 43 as follows:

Page 1, line 13, after "resources":

Insert "in consultation with the Alaska Gasline Development Corporation"

There being no objection, Amendment 2 to Amendment 43 was adopted.

REPRESENTATIVE SEATON expressed his understanding that specifying a report [by adopting Amendment 43] would give DNR a framework in which to report to the public, and said he supported the inclusion of the report.

CO-CHAIR FEIGE directed attention to the amendment, page 2, subsection (c), noting the report and recommendations would be available to the legislature on or before the date a firm transportation services agreement (FTSA) is submitted to the legislature for approval. He requested clarification on when the report would be made public.

COMMISSIONER BALASH surmised the report would be made public prior to the proposed date. He expected that, prior to presenting an FTSA to the legislature for approval, the information required by the report, such as how in-state gas is managed, would have already been explained "in the course of bringing something forward," and added "putting that specific report in one place ... might be useful to the public and the bodies."

[1:16:45 PM](#)

REPRESENTATIVE JOHNSON asked whether the administration finds the amendment helpful, or just does not object to the amendment.

COMMISSIONER BALASH clarified that the administration does not object to the amendment, and "having some guidance in terms of what it is the legislature wants to see from us ... I prefer that"

CO-CHAIR SADDLER directed attention to Amendment 43 beginning on page 1, line 18, which read:

(2) the anticipated benefits, risks, and liabilities associated with the sale by the state to utilities and other customers in the state of natural gas received by the state as royalty in kind or as payment of tax;

CO-CHAIR SADDLER asked whether the issue of the sale of gas to the utilities is addressed by "the market." He observed that if a utility wants to buy or bid for gas, it considers the cost, liabilities, and benefits to make that assessment, and he concluded that [the proposed report] is duplicative. He then directed attention to language beginning on page 1, line 21, which read:

(3) the effect and consequences, including the fiscal effect and liability to third parties, of the state's transport of a reduced amount of natural gas south of an in-state delivery point or underutilizing capacity in a liquefied natural gas plant; and

CO-CHAIR SADDLER remarked:

There's talk about the effect of a reduced amount of natural gas and that presumes that there's some other

normal way to reduce ... of natural gas. I don't know who sets that amount and who defines what is a reduced amount, if it's below capacity - design capacity - it's just not quite clear what that is. And underutilizing on line 23: What is underutilizing? What is the proper utilization? Those are [analyses] that might be done by those [who] design the size of the pipeline, not necessarily the commissioner. ... And ... we talk about "south" of in-state delivery, I would ... amend it to "downstream"; that might make more sense.

REPRESENTATIVE KAWASAKI observed this amendment addresses specifically in-state use because it is known that taking gas off this line potentially harms residents downstream, or south [of the delivery] point, due to underutilization of the pipeline. He said either the term downstream or south is acceptable.

[1:20:02 PM](#)

MICHAEL PAWLOWSKI, Deputy Commissioner, Office of the Commissioner, Department of Revenue (DOR), stated there is no intent to design overcapacity in the system in a way that would have adverse effects on the state. In that case all of the parties, including AGDC and the state, would not be operating "in the fashion that these projects get designed and developed on." He stressed that he did not want there to be the perception that as part of the Pre-FEED stage, adverse consequences for capacity are something "that's a given in this project, or something that the state would actively walk into."

REPRESENTATIVE TARR responded to Co-Chair Saddler's comments to the language in the amendment beginning on page 1, lines 18-19, saying she reads the provision from the opposite viewpoint. The utilities would decide what their contract would be from the perspective of the utility. She continued:

This would be us looking at it from the opposite viewpoint of the state and so how those utilities would impact us. ... They're looking to serve their customers and from that perspective; we're looking at it from, from preserving the use of in-state gas.

CO-CHAIR SADDLER suggested clarifying the intent by the insertion of "to the state."

[1:22:15 PM](#)

REPRESENTATIVE TARR moved to adopt Amendment 3 to Amendment 43 as follows:

Page 1, line 18, after "sale":
Insert "to the state"

The committee took a brief at-ease.

[1:24:13 PM](#)

REPRESENTATIVE TARR moved to adopt an amendment to Amendment 3 to Amendment 43 as follows:

Page 1, line 18, after "liabilities"
Insert "to the state"

There being no objection, it was so ordered.

[The committee treated the adoption of the amendment to Amendment 3 to Amendment 43 as also the adoption of Amendment 3 to Amendment 43.]

CO-CHAIR SADDLER maintained his objection to Amendment 43, as amended.

[1:25:10 PM](#)

REPRESENTATIVE TARR said the administration is supportive of Amendment 43, which is a way to reassure Alaskans who are seeking an opportunity for in-state gas, and which provides guidance to the administration on the type of information desired by constituents.

[1:25:48 PM](#)

A roll call vote was taken. Representatives Kawasaki, Seaton, P. Wilson, Tarr, and Feige voted in favor of Amendment 43, as amended. Representatives Hawker, Olson, and Saddler voted against it. Therefore, Amendment 43, as amended, was adopted by a vote of 5 to 3.

REPRESENTATIVE TARR recalled previous discussion regarding changes to the [interim municipal advisory board created in the bill] in order to ensure that the proposed statute directs that the board is not an interim board, but one that is more

permanent and created under the existing statute for boards and commissions. She advised that the issue would not be broached in committee but that the administration would address this issue in the next committee of referral.

[1:27:26 PM](#)

REPRESENTATIVE KAWASAKI moved to rescind the committee's action on 4/8/14 [meeting called to order at 4:34 p.m.] in failing to adopt Amendment 38, labeled 28-GS2806\I.A.21, Bullock, 4/1/14, which read:

Page 11, line 28:
Delete "10"
Insert "[20]"

REPRESENTATIVE HAWKER objected.

REPRESENTATIVE KAWASAKI stated his intention to change his vote.

[1:31:14 PM](#)

A roll call vote was taken. Representatives Seaton, P. Wilson, Tarr, Kawasaki, and Feige voted in favor of the motion to rescind. Representatives Hawker, Johnson, Olson, and Saddler voted against it. Therefore, the motion to rescind the committee's action in failing to adopt Amendment 38 was adopted by a vote of 5-4.

[1:32:08 PM](#)

REPRESENTATIVE P. WILSON moved to adopt Amendment 38, labeled 28-GS2806\I.A.21, Bullock, 4/1/14, which read:

Page 11, line 28:
Delete "10"
Insert "[20]"

[Note to reader: The amendment labeled 28.GS2806\I.A.21, Bullock, 4/1/14, provided by Legislative Legal and Research Services, Legislative Affairs Agency, is not the version of Amendment 38 offered in committee.]

CO-CHAIR SADDLER objected.

CO-CHAIR FEIGE clarified this was the same Amendment 38 [offered at the committee's 4/8/14 meeting, called to order at 4:34 p.m.]

REPRESENTATIVE P. WILSON restated her motion and informed the committee the amendment directs a change in the percentage of revenue [that is received from royalty gas and is to be paid to the Alaska affordable energy fund] from 10 percent to 20 percent. After allowing for [payment to the Alaska Permanent Fund Corporation] the actual percentage would be increased from 7.5 percent to 15 percent of revenue.

CO-CHAIR FEIGE asked for the effective date.

REPRESENTATIVE P. WILSON responded the amendment would be effective at the time "the [gas] starts flowing."

REPRESENTATIVE KAWASAKI said at the time of the previous vote on Amendment 38 it was unclear to him whether Fairbanks would benefit from direct access [to the pipeline] or [from the funds paid into the Alaska affordable energy fund].

CO-CHAIR SADDLER maintained his objection.

[1:34:48 PM](#)

A roll call vote was taken. Representatives Seaton, P. Wilson, Tarr, Kawasaki, and Feige voted in favor of Amendment 38. Representatives Johnson, Olson, Hawker, and Saddler voted against it. Therefore, Amendment 38 was adopted by a vote of 5-4.

The committee took an at-ease from 1:35 p.m. to 1:36 p.m.

[1:36:10 PM](#)

CO-CHAIR FEIGE, for purposes of discussion, directed attention to the Letter of Intent for SB 138 [adopted by the Senate on 3/18/14]. He requested the administration's position on the Letter of Intent.

COMMISSIONER BALASH said the administration was a signatory to the Heads of Agreement (HOA) which includes the language of the Letter of Intent, and believes the language represents a commitment by all of the parties to include the terms and future relevant agreements contained therein. He pointed out specific terms in the Letter of Intent are not appropriate in a general statute, but that does not obviate the administration's intent to pursue the terms. He urged that the Letter of Intent be forwarded with the fiscal notes attached to the bill.

REPRESENTATIVE P. WILSON asked whether Article 11.2 of the Letter of Intent directs that each person working on the project must be a member of a labor union.

COMMISSIONER BALASH explained that Article 11.2 represents a commitment to negotiate a project labor agreement (PLA), which is a tool used by project sponsors and funding sources to ensure labor stability in order to prevent increases to the overall cost and schedule of a project. The terms of a PLA are negotiated; PLAs are varied and can be union, non-union, or other.

[1:40:01 PM](#)

REPRESENTATIVE SEATON inquired as to whether a PLA directs that contractors ensure that employees have appropriate certifications and experience.

COMMISSIONER BALASH noted that DOR and DNR will not be signatories to a PLA. Although the state will sign the FTSA with the sponsors and equity owners, the sponsors and equity owners in the venture will execute PLAs.

CO-CHAIR FEIGE clarified that the purpose of the Letter of Intent was to focus on Article 11 in the HOA, because Article 11 could not be drafted into the body of the bill. The Letter of Intent will attach to the bill and become a permanent part of the public record with the intent to provide clear legislative guidance through the completion of the liquefied natural gas (LNG) project.

The committee took an at-ease from 1:43 p.m. to 1:47 p.m.

[1:47:48 PM](#)

REPRESENTATIVE KAWASAKI inquired about the impacts of the Letter of Intent for CSSB 138(FIN) am - which addresses Alaska hire - versus uncodified law, and whether they carry the same effect.

DON BULLOCK, Attorney, Legislative Legal Counsel, Legislative Legal and Research Services, Legislative Affairs Agency, informed the committee that adopting a Letter of Intent is similar to passing a resolution in that it is not binding and is not law. Codified law and statutory law are both binding laws in place and may have requirements and prohibitions, so a Letter

of Intent says, "We'd sure like this to happen." He added that a Letter of Intent expresses the preference of the legislature.

REPRESENTATIVE KAWASAKI recalled that in 2007 similar language was included in the Alaska Gasline Inducement Act (AGIA) [passed in the 25th Alaska State Legislature]. A requirement was put into codified law for "a commitment to negotiate before construction a project labor agreement to the maximum extent permitted by law." He asked whether language to ensure PLAs are negotiated would be a problem to put into the bill.

MR. BULLOCK said it is possible; however, the context of AS 43.90.130 was the solicitation of applications for the AGIA license, and the abovementioned language was one of the requirements of the application. He questioned how the proposed requirement could be enforced, but acknowledged it has been codified before and could be again, particularly with the limitation "to the maximum extent of law."

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REPRESENTATIVE JOHNSON assured the committee that a project of this size will have a PLA, saying it will be essential and will be part of the project. However, for the legislature to include the requirement for a PLA in statute adds a limitation on the contractor to the negotiations. The labor unions can provide this and he expressed his preference to utilize the Letter of Intent.

CO-CHAIR FEIGE pointed out the benefits from the sections of the Letter of Intent that address Alaska hire, vocational training through the Department of Labor & Workforce Development, and local advertising for labor.

REPRESENTATIVE TARR appreciated the discussion of the Letter of Intent. Although her preference is for the language that requires a PLA to be included in the bill, she agreed with Representative Johnson that [a PLA] will be negotiated. Furthermore, the producers have indicated PLAs will be necessary for the project. The Alaska hire and PLA components are very important to her and to the public, and recent projects have shown their successful use.

[1:56:22 PM](#)

REPRESENTATIVE HAWKER moved to adopt the Letter of Intent for SB 138, written on Senator Click Bishop's letterhead, and adopted

by the Senate on 3/18/14. There being no objection, it was so ordered.

CO-CHAIR FEIGE directed attention to the current fiscal notes attached to the bill and the effects of amendments thereon.

REPRESENTATIVE HAWKER deferred to agency representatives to talk about the fiscal notes. He pointed out that the fiscal notes fund the project for two years.

MR. PAWLOWSKI agreed that the current fiscal notes relate to the Pre-FEED stage, which is direct costs through the end of fiscal year 2015 (FY 15). He turned to fiscal note number 10 [identifier: SB138CS(FIN)-DCCED-AGDC-03-16-14; prepared by AGDC], which requested \$1,394,000 in personal services. He deferred to AGDC.

[1:59:11 PM](#)

MILES BAKER, Director, Government Relations and External Affairs, AGDC, said AGDC prepared two fiscal notes. Fiscal note number 14 [identifier: SB138CS(FIN)-FUNDCAP-LDNPFF-03-16-14; prepared by AGDC] capitalizes the new Alaska LNG Project fund, and requests \$66,726,700 for an FY 14 supplemental request. For members to better understand the requests, he returned attention to fiscal note number 10, and explained that as part of the budget process, AGDC, in order to implement HB 4 [passed in 2013 by the 28th Alaska State Legislature], recognized that it only submitted for personal services in its FY 15 budget submission. Other operating costs are associated with the corporation, but to be consistent with AGDC's initial submission, the fiscal note was prepared with only personal services included. Through the budget process, additional AGDC costs, such as travel, lease expenditures, contractual services, and additional AGDC board expenditures have been included in other project-related expenditures shown on page 2 of the fiscal note. When the fiscal note is updated, the aforementioned expenditures will be moved from the analysis section to the numbers section. Also, the name of the new fund has been changed. In essence, the fiscal note recognizes the additional responsibilities given AGDC to participate in the Alaska LNG Project, which are to create a new allocation called the Alaska LNG Participation to track the costs of the project and add six positions, including a program manager. The analysis on the fiscal note reflects Pre-FEED costs through FY 17, but the fiscal note requests cash necessary for the remainder of FY 14 and FY 15. Returning to contractual services, he said AGDC anticipates utilizing two

full-time equivalent (FTE) legal contractors, three FTE positions for commercial gas marketing and engineering design contractors for a total of \$15 million through FY 17. Returning to other additional costs, Mr. Baker explained that many of the meetings to negotiate contracts and coordination are occurring out of state, more leased space is needed, and the AGDC board will be meeting more frequently.

[2:05:50 PM](#)

MR. BAKER continued to the next sections of the fiscal note which further the analysis of the state's equity participation in the project - AGDC's 25 percent share of the LNG facility - which is \$57,850,000. He said a 30 percent contingency is included, which is based on the rough initial cost estimates and on the requirements of the cash calls agreed to in the joint venture agreements (JVA). Also, the state's 40 percent option is estimated at \$42,250,000. At this time, AGDC is not requesting the 40 percent option funds that are not needed before FY 16. Page 4 includes the analysis of the state cost to meet the conditions of the Memorandum of Understanding (MOU) between TransCanada (TC) and the state to reimburse TransCanada for development costs and allowance for funds used for development costs (AFUDC) should the project fail. Further, the fiscal note summary contains an Alaska LNG Project expenditure summary from FY 14 through FY 17, including an FY 14 supplemental in the amount of \$11,188,200, and an FY 15 supplemental in the amount of \$55,538,500, for a total of \$66,726,000. Lastly, the legislation creates a new fund similar to the in-state gas pipeline fund; AGDC will track the two projects separately, requiring a cost allocation system for each.

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REPRESENTATIVE TARR recalled that there has been concern about keeping the funds for ASAP separate from funds for the Alaska LNG Project. She asked whether any of the \$400 million appropriated for ASAP have been used for the Alaska LNG Project and if so, if the ASAP fund would be reimbursed.

MR. BAKER was unsure of the balance remaining in the ASAP fund. In further response to Representative Tarr, he said AGDC's involvement with the Alaska LNG Project coincided with the appointment of the new AGDC board. HB 4 granted AGDC the authority to work on alignment with the Alaska LNG Project as long as the ASAP project was not adversely affected, and AGDC

management and board are aware that the allocated funds were to be used for moving ASAP to open season. A separate fund was established for the Alaska LNG Project, and prior to work - beyond attending meetings - a separate appropriation from the legislature is warranted in order for AGDC to pursue [HB 4]. He described the amount of money that has been paid for staff travel as de minimis. Mr. Baker was unsure whether these charges would be transferred to the "new appropriation"; however, the cost allocation methodology is being developed to track expenses such as administrative staff, finance team staff, leases, supplies, and board member travel.

[2:15:32 PM](#)

REPRESENTATIVE TARR directed attention to page 3 [of fiscal note number 10]. She questioned why there will be high expenses for contractor services instead of hiring more FT staff for the corporation.

MR. BAKER responded that AGDC has tried to keep true to the directive given in HB 4 that while the timeline for the project is long, the project will end, and so AGDC will only maintain the level of state employees absolutely necessary. Also, some staff will be highly specialized, and only needed for a short period of time.

REPRESENTATIVE TARR observed that if the state purchases the pipeline at the end of the first term, expert staff will be needed to continue operations and hiring now would provide the time and opportunity to build staffing for the future.

MR. BAKER agreed with Representative Tarr's assessment and said AGDC anticipates proposing some in-house hiring to the legislature, especially on the gas-marketing side.

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REPRESENTATIVE HAWKER recalled that proponents of HB 4 were cautioned against building a base of employees, but rather staff at AGDC were to be task-focused and dismissed. He said this is not a "continuing operations staff."

REPRESENTATIVE TARR returned attention to the supplemental request of [\$582,600 on page 3 of fiscal note 10] for increased responsibilities and authority for the AGDC board. She questioned whether the board will be overburdened with the tasks of both ASAP and the Alaska LNG Project proposals.

The committee took a brief at-ease due to technical difficulties.

[2:24:38 PM](#)

MR. BAKER answered that the AGDC board meets in person and telephonically monthly, and subcommittees also meet. However, the board is meeting frequently because it is a new corporation; of the \$582,600, \$285,000 is for travel, approximately \$200,000 is for stipends, and \$100,000 is for associated costs. He advised that this is a reasonable estimate for work during the remainder of this fiscal year and all of the next fiscal year.

REPRESENTATIVE HAWKER clarified the number being discussed on page 3 of fiscal note 10 is \$582,600. On page 4 this amount is shown as the total required for the AGDC board for FY 14-FY 17.

MR. BAKER said correct.

[2:28:25 PM](#)

MR. PAWLOWSKI addressed fiscal note number 11 [identifier: SB138CS(FIN)-DOR-TRS-03-16-14; prepared by the Treasury Division, DOR]. He said page 1 includes a \$500,000 item for services for FY 15, and for FY 16 there is a \$150,000 item for services to the Treasury Division of DOR. The analysis on page 2 explains that the allocations are in response to Section 13 of the bill, which creates the Alaska affordable energy fund. There should be no administrative costs to managing the fund; however, Section 60 of the bill directs the commissioner of DOR to develop a plan for municipalities, regional corporations, and residents to invest in the project, and it is estimated that developing the plan will cost \$500,000. Also, providing a broader range of understanding the financing of the project will require additional funding to the Treasury Division on fiscal note 11 to develop the financing matrix, although no additional staff will be hired.

MR. PAWLOWSKI continued to fiscal note number 13 [identifier: SB138CS(FIN)-DOR-TAX-03-16-14; prepared by DOR]. Included on page 1, for FY 15, is a \$750,000 item for services to the Tax Division of DOR. The analysis on page 2 explains that \$500,000 is for expenses incurred while the Tax Division installs and upgrades the tax revenue management system to account for the changes made to the production tax. Finally, \$250,000 is for reimbursable services agreements (RSAs) with the Department of

Law related to regulations that are needed to implement the bill. Again, no new positions will be added for the aforementioned tasks. Mr. Pawlowski pointed out that the incorporation of the analysis of Cook Inlet for the Oil and Gas Competitiveness Review Board and the targeting of the gross value of reduction will not require new positions or contractors up to the FY 17 date; thus, the only addition is for the financing options in the report required by the amended version of the bill.

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REPRESENTATIVE TARR directed attention to the language in fiscal note 13, page 2, paragraph 2, which is related to the education tax credit, and paraphrased the language as follows:

It is difficult to determine how this language will affect taxpayer behavior and, therefore, it is difficult to determine if this bill will affect revenue from the oil and gas production tax.

REPRESENTATIVE TARR asked whether information on how an education tax credit was previously used can be made available to the committee.

MR. PAWLOWSKI said he would research the Tax Division annual report and the Revenue Sources Book for this information. He explained that reporting on these types of credits is delayed because they are applied for in the following tax year.

[2:34:06 PM](#)

COMMISSIONER BALASH drew attention to fiscal note number 12 [identifier: SB138CS(FIN)-DNR-NSG-3-16-14; prepared by DNR]. Commissioner Balash stated part of the reason DOR's fiscal notes are so low is because DNR holds much of the responsibility related to the bill: In FY 15 and FY 16, DNR's [estimated operating expenditures totaled \$8,961,700 per year]. He pointed out that the enabling contracts will be brought forward within FY 16, which begins 7/1/15. The various line items include six positions to be hired under the special exemption clauses of [AS 39.25 the State Personnel Act], as new hires will be "off [salary] schedule" in order to hire those qualified in the gas marketing effort. In addition, travel costs are high in anticipation of overseas travel to Asia in order to determine how to market the gas. Also anticipated is a high cost for contractual services for subject-matter experts, especially for

RSAs with DOL to support the development of contracts. However, Commissioner Balash doubted if there would be an increase to fiscal note 12 for costs associated with issuing the report required by Amendment 43.

[2:37:07 PM](#)

REPRESENTATIVE KAWASAKI observed that there are several DNR expenditures associated with marketing, travel, and services that are similar to the request by AGDC. He asked whether these are duplicative functions within the agency.

COMMISSIONER BALASH responded that AGDC's marketing efforts in the next two years will be primarily related to the in-state aspects [of marketing natural gas]. Potentially, a separate subsidiary to market LNG exports may be formed - which would preclude hiring marketing experts at DNR - as the in-state and export marketing functions are distinct. Regarding legal services and support, there are five categories of agreements - two will be signed by AGDC and four will be signed by DNR - thus there will be some overlap, although the total number of the agreements remains the same. In response to Representative Tarr, he clarified that the agency and AGDC will be signing the midstream services agreement for liquefaction service, as the category of midstream services agreements involves both the state and AGDC. Regarding equity or governance-type of agreements, only AGDC will sign; on the other hand, upstream, offtake, and balancing agreements will be signed only by the agencies. For fiscal, or enabling-type contracts and leases, agencies only will sign. Finally, the disposition agreements will be signed by the agencies and maybe by AGDC.

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MR. PAWLOWSKI directed attention to fiscal note number 15 [identifier: SB138CS(FIN)-DCCED-AEA-03-17-14; prepared by the Alaska Energy Authority (AEA)]. He said operating expenditures for FY 15 to the Department of Commerce, Community & Economic Development (DCCED) are zero. However, there is an estimated capital cost of \$1,375,000 in response to the requirement in the bill for the Alaska Energy Authority (AEA), in consultation with AGDC, the Alaska Industrial Development and Export Authority (AIDEA), and DOR to develop a plan for infrastructure to deliver more affordable energy to areas of the state that are not expected to have direct access to the North Slope natural gas pipeline. The plan will coordinate AEA's existing work around regional energy plans and begin the groundwork for the movement

to other energy sources for the aforementioned regions of the state. In response to Representative Tarr, he understood that the abovementioned capital expense will be a line item in the capital budget.

REPRESENTATIVE SEATON offered his appreciation for all of the work that has been done regarding CSSB 138(FIN) am. He informed the committee that a number of issues that were not appropriate for the codified sections of the bill would be incorporated in a sign-on letter to ensure that the issues would be clear to the agencies. The sign-on letter will be offered to the committee members for signature.

[2:44:41 PM](#)

CO-CHAIR SADDLER provided a summary of the work done on CSSB 138(FIN) am: the governor and administration's proposal and path to the project was analyzed; questions were asked and most were answered; the HOA and MOU were evaluated; processes and a variety of scenarios were discussed to better understand what lies ahead; a record number of amendments were offered to improve the environment in which to negotiate contracts; sideboards for the preliminary agreements were sought to protect Alaska's interests; clear intent on the final agreements was provided; the option of ASAP was preserved; and hard work was done to understand the details of the project.

The committee took a brief at-ease.

[2:47:43 PM](#)

REPRESENTATIVE JOHNSON agreed that the work of the committee provided a way forward, although he remained cautious about ownership and control of the project. He opined the project has the potential for success and urged the administration and the agencies to ensure that the project is the best for the state. He expressed support for the bill, adding that he wishes to review the proposed committee substitute and fiscal notes when possible.

CO-CHAIR FEIGE stated that the committee will receive copies as requested.

[2:51:30 PM](#)

REPRESENTATIVE TARR expressed her goals for the committee's work: direct benefit to Alaskans; a fair return for the

resource; and a good process to follow. Many of the amendments addressed concerns related to these topics, and she is pleased Amendment 43 was adopted because the report on in-state gas will have an effect on the direct benefit to Alaskans. Although the committee did not have much impact on the process, she noted that the committee was able to express its concerns and will provide additional guidance to "the department" via Representative Seaton's sign-on letter. Of great importance is a fair return for the resource, and she reminded the committee that during the lean years ahead the proposed project will create the state revenue needed. Representative Tarr said she is glad to hear representatives of DNR and DOR state their involvement in the project in order to avoid past mistakes. She complimented the work of the administration, the committee, and especially that of Mr. Bullock at Legislative Legal and Research Services.

REPRESENTATIVE KAWASAKI appreciated the amount of time the committee spent with consultants and the administration, although he still has questions on ownership and control that he hopes will be addressed by the House Finance Committee.

[2:56:45 PM](#)

REPRESENTATIVE P. WILSON said she felt the bill was improved and fair for all Alaskans. She thanked everyone for their work.

CO-CHAIR FEIGE observed the committee considered the bill for 25 days of meetings and he appreciated the work of all of the members of the committee. The staff and committee aides also worked long hours, as did Legislative Legal and Research Services, especially Ms. Nauman and Mr. Bullock. By its review of the amendments, the Letter of Intent, and the fiscal notes, the committee has taken a close look at the bill, as will the next committee of referral, he said.

[3:00:19 PM](#)

REPRESENTATIVE HAWKER told a personal story and then stated that there are areas of the bill he would like to see done differently, such as the transfer of wealth to TransCanada in the MOU and the HOA, and the ownership and control provisions; however, there are other elements to be lauded. On balance, he said he would support the bill. He reminded the committee that votes against amendments in committee would not restrict subsequent negotiations by DOR, DNR, or AGDC on topics related to the failed amendments.

3:03:14 PM

REPRESENTATIVE HAWKER moved to report [CSSB 138(FIN) am], as amended, and with the attached Letter of Intent, out of committee with individual recommendations and the accompanying fiscal notes. In addition, Legislative Legal and Research Services is authorized to make any necessary conforming amendments. There being no objection, HCS CSSB 138(RES) was reported from the House Resources Standing Committee.

3:04:01 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:04 p.m.