

SENATE FINANCE COMMITTEE

March 4, 2014

9:07 a.m.

[9:07:32 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:07 a.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair  
Senator Kevin Meyer, Co-Chair  
Senator Anna Fairclough, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman

MEMBERS ABSENT

Senator Donny Olson

ALSO PRESENT

Barbara Huff Tuckness, Director, Legislative and Governmental Affairs, Alaska Teamsters Local 959, Juneau; Lisa Weissler, Self, Juneau; Don Etheridge, Alaska State American Federation of Labor and Congress of Industrial Organizations and Alaska Building Trades, Juneau; Paul Grossi, Alaska Pipe Trades and Ironworkers of Alaska, Juneau; Julie Duquette, Associated Builders and Constructors of Alaska, Juneau; Chuck Wieggers, Self, Juneau;

PRESENT VIA TELECONFERENCE

Bill Warren, Self, Kenai; Merrick Pierce, Board Member, Alaska Gasline Port Authority, Fairbanks; Jim Plaquet, Operating Engineers Local 302, Fairbanks; Rick Rogers, Executive Director, Resource Development Council (RDC), Anchorage; Rachael Petro, President & CEO, Alaska Chamber, Anchorage; Jason Hoke, Executive Director, Copper River Valley Development Association, Glennallen; Lynn Willis, Self, Eagle River; Lake Williams, President, Fairbanks

Building and Construction Trades, Fairbanks; Doug Tansy, International Brotherhood of Electrical Workers Local 1547, Fairbanks.

SUMMARY

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

SB 138 was HEARD and HELD in committee for further consideration.

#sb138

SENATE BILL NO. 138

"An Act relating to the purposes of the Alaska Gasline Development Corporation to advance to develop a large-diameter natural gas pipeline project, including treatment and liquefaction facilities; establishing the large-diameter natural gas pipeline project fund; creating a subsidiary related to a large-diameter natural gas pipeline project, including treatment and liquefaction facilities; relating to the authority of the commissioner of natural resources to negotiate contracts related to North Slope natural gas projects, to enter into confidentiality agreements in support of contract negotiations and implementation, and to take custody of gas delivered to the state under an election to pay the oil and gas production tax in kind; relating to the sale, exchange, or disposal of gas delivered to the state under an election to pay the oil and gas production tax in kind; relating to the duties of the commissioner of revenue to direct the disposition of revenues received from gas delivered to the state in kind and to consult with the commissioner of natural resources on the custody and disposition of gas delivered to the state in kind; relating to the authority of the commissioner of natural resources to propose modifications to existing state oil and gas leases; making certain information provided to the Department of Natural Resources and the Department of Revenue exempt from inspection as a public record; making certain tax information related to an election to pay the oil and gas production tax in kind exempt from tax confidentiality provisions; relating to establishing under the oil and gas production tax a gross tax rate for gas after 2021; making the alternate minimum tax on oil and gas

produced north of 68 degrees North latitude after 2021 apply only to oil; relating to apportionment factors of the Alaska Net Income Tax Act; authorizing a producer's election to pay the oil and gas production tax in kind for certain gas and relating to the authorization; relating to monthly installment payments of the oil and gas production tax; relating to interest payments on monthly installment payments of the oil and gas production tax; relating to settlements between producers and royalty owners for oil and gas production tax; relating to annual statements by producers and explorers; relating to annual production tax values; relating to lease expenditures; amending the definition of gross value at the 'point of production' for gas for purposes of the oil and gas production tax; adding definitions related to natural gas terms; clarifying that credit may not be taken against the in-kind levy of the oil and gas production tax for gas for purposes of the exploration incentive credit, the oil or gas producer education credit, and the film production tax credit; making conforming amendments; and providing for an effective date."

[9:08:08 AM](#)

Co-Chair Kelly announced that amendments to SB138 should be submitted to the chair by Friday March 7, 2014.

[9:08:32 AM](#)

Senator Hoffman stated that he had some amendments to offer but that the drafting was moving slowly; as a result, the amendments might not be ready by Friday.

Co-Chair Kelly stated that he would communicate with the drafters.

[9:08:55 AM](#)

Co-Chair Kelly OPENED public testimony.

[9:09:07 AM](#)

BILL WARREN, SELF, KENAI (via teleconference), expressed reservations with SB 138. He thought the way that the project was structured would result waiting upwards of 20

years more for in-state gas, if the project moved forward at all. He shared that he did not like that AGDC would have to face an open season in 2015 with the 500 mcf restriction. He stated that the project would leave the state with interim gas for 20 years, but that Alaska had an immediate need for gas. He asserted that trucking LNG to Fairbanks was a bad idea and preferred that AGDC build something similar to the Sweet Sixteen Express. He wanted AGDC to live up to its promise to get gas to Alaskans first.

[9:13:57 AM](#)

BARBARA HUFF TUCKNESS, DIRECTOR, LEGISLATIVE AND GOVERNMENTAL AFFAIRS, ALASKA TEAMSTERS LOCAL 959, JUNEAU, testified that her organization supported the legislation. She noted that the discussion of an in-state gasline had been under discussion for approximately the last 40 years. She stated that while the HOA and intent language that had been incorporated into the bill did not have the force of law, the teamsters were comfortable with the recognition and believed that it reinforced the commitment between industry and the administration moving forward. She stated that the project would affect many aspects of the state from employment to gas delivery. She hoped that there would be a large pool of trained Alaskans to draw from during the hiring process. She believed that the state should invest in training residents.

[9:18:27 AM](#)

MERRICK PIERCE, BOARD MEMBER, ALASKA GASLINE PORT AUTHORITY, FAIRBANKS (via teleconference), testified in opposition of SB 138. He believed that the international market should be examined more closely. He noted that Alaska offered more stability on many levels than Russia. He opined that Alaska faced a lot of competition in the market. He said that ExxonMobil ignored the markets while under AGIA, which he believed sabotaged projects.. He spoke to fraudulent tariffs employed by Alyeska on the Trans-Alaska Pipeline System (TAPS) in an effort to keep competition off of the North Slope. He queried why the state would want to build a gasline with companies that engaged in unsavory practices. He wondered about the route that the project would take and highlighted some of the challenges that the project would face.

[9:24:57 AM](#)

Co-Chair Kelly requested that the testifier submit his comments in writing.

[9:25:15 AM](#)

Vice-Chair Fairclough inquired if the Mr. Merrick was in favor or in opposition of the legislation.

Mr. Pierce responded that he was in opposition to the entire bill. He reiterated that the market needed to be watched closely in order for the project to be a success. He added that if the project wasn't going to deliver gas until 2022 it would not be a success. He opined that, given the deficits that the state faced right now, not building a pipeline now would be lethal to the future.

[9:26:07 AM](#)

Vice-Chair Fairclough queried if Mr. Pierce would support the project if the final destination were Valdez.

Mr. Pierce reiterated that paying close attention to the market was critical to the success of the project.

[9:27:14 AM](#)

JIM PLAQUET, OPERATING ENGINEERS LOCAL 302, FAIRBANKS (via teleconference), supported SB 138. He related that he had worked on TAPS and had seen the economic development that it had provided to the state. He recalled that around the year 2000, Alaskans had wanted to move arctic gas to the Lower-48 but that fracking had made it uneconomical. He believed that the project would create jobs for Alaskans during construction and into the future.

[9:29:30 AM](#)

RICK ROGERS, EXECUTIVE DIRECTOR, RESOURCE DEVELOPMENT COUNCIL (RDC), ANCHORAGE (via teleconference), testified in support of SB 138. He offered a brief history of RDC. He believed that alignment and durability were critical to the success of the HOA agreement. He stated that unlike oil, LNG was sold on long-term contracts, which required durability, including fiscal terms. He thought that the legislation required further analysis and encouraged due

diligence in fully vetting the project. He said that the most beneficial line for Alaskans would be a large capacity line sanctioned by the producers in partnership with the state. He stated that fundamental project economics, largely out of the state's control, would dictate whether the project was ever sanctioned and constructed. He felt that a robust oil industry must be maintained on the North Slope in order for the project to succeed because oil provided the funding and supported the complex infrastructure needed to produce gas. He encouraged continuing deliberation and passage of enabling legislation.

[9:33:29 AM](#)

RACHAEL PETRO, PRESIDENT & CEO, ALASKA CHAMBER, ANCHORAGE (via teleconference), stated that the Alaska Chamber was still evaluating the current version of the bill, but supported the underline principles found in the HOA and the legislation. She said the chamber supported state participation in and Alaska gas project, the state taking a percentage gas share, and the establishment of a clear process to move the project forward. She explained that the process must include the necessary tools to confidentially develop the various project enabling arrangements in contracts and establish a clear public process that provided for legislative oversight, review and approval. The chamber believed that the best way for the state to develop its resources was to have the state participate as a business partner in an Alaska gas project.

[9:36:13 AM](#)

AT EASE

[9:36:43 AM](#)

RECONVENED

[9:36:47 AM](#)

JASON HOKE, EXECUTIVE DIRECTOR, COPPER RIVER VALLEY DEVELOPMENT ASSOCIATION, GLENNALLEN (via teleconference), spoke in support of SB 138. He expressed indifference concerning the size of the pipeline or where it was located. He thought that the first and foremost the gas should be used to help with the energy crisis in rural Alaska, any additional gas could then be shipped and sold in the Lower 48.

9:38:06 AM

LYNN WILLIS, SELF, EAGLE RIVER (via teleconference), testified in opposition to SB 138. He said that is primary concern was how the state would pay for the project.

9:39:10 AM

LAKE WILLIAMS, PRESIDENT, FAIRBANKS BUILDING AND CONSTRUCTION TRADES, FAIRBANKS (via teleconference), testified in support of the basic outline of SB 138. He believed that a large diameter pipeline would be most beneficial to the state and thought that the state should be at the table as a partner. He stressed the importance of local hire and the involvement of local governments.

9:41:32 AM

DOUG TANSY, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS LOCAL 1547, FAIRBANKS (via teleconference), testified in support of SB 138. He expressed support for the use of Alaskan contractors and workforce on the project. He said that there were many qualified and skilled Alaskan contractors, as well as a skilled and trained Alaska workforce, available to work on the project.

9:43:10 AM

LISA WEISSLER, SELF, JUNEAU, testified against SB 138. She expressed concern the administration was making policy decisions that were being ratified by the legislature after the fact. She thought that the administrative decision concerning state ownership in the pipeline was a major policy decision that warranted more public participation. She offered that the decision for state ownership was what was directing all of the other discussion on the bill, such as the HOA and the MOU. She said that if it was proven that equity participation was the best way for the state to proceed, the principals that would guide the state's equity participation should be set into law. She likened her idea to the Stranded Gas Act and believed that an act would strengthen the state's position when negotiating.

9:46:19 AM

Vice-Chair Fairclough noted that Lisa had referenced past studies and requested an explanation of the studies.

Ms. Weissler provided the following studies:

1979 - Financing the Alaska Highway Gas Pipeline-What is to be Done

Arlon Tussing & Connie Barlow

[http://www.arlis.org/docs/voll/AlaskaGas/Report2/Report\\_ISE R\\_1979\\_FinancingAkHwyGasPipeline.pdf](http://www.arlis.org/docs/voll/AlaskaGas/Report2/Report_ISE R_1979_FinancingAkHwyGasPipeline.pdf)

1982 - Kidder Peabody Report

[http://www.arlis.org/docs/voll/AlaskaGas/Report/Report\\_KPCI \\_1982\\_ParticipationFinancingAKSegment.pdf](http://www.arlis.org/docs/voll/AlaskaGas/Report/Report_KPCI _1982_ParticipationFinancingAKSegment.pdf)

1997 - JP Morgan Report

Referenced on page 2-10 in the 2002 State Financial Participation report

2001 - Alaska Highway Natural Gas Policy Council Committee Report

[http://www.arlis.org/docs/voll/AlaskaGas/Report/Report\\_GasP olicy ouncil\\_2001\\_RptGov\\_v1.pdf](http://www.arlis.org/docs/voll/AlaskaGas/Report/Report_GasP olicy ouncil_2001_RptGov_v1.pdf)

State Financial Participation in an Alaska Natural Gas Pipeline

Petrie Parkman & Co. CH2M Hill

[http://www.arlis.org/docs/voll/AlaskaGas/Report/Report\\_ADR\\_ 2002\\_StateFinancialParticipation.pdf](http://www.arlis.org/docs/voll/AlaskaGas/Report/Report_ADR_ 2002_StateFinancialParticipation.pdf)

[9:47:37 AM](#)

DON ETHERIDGE, ALASKA STATE AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS AND ALASKA BUILDING TRADES, JUNEAU, testified in support of the legislation in its current form. He stressed that the jobs generated by the project should go to Alaskans and benefit Alaskan companies. He said that Alaskans were currently being trained to work on the gasline. He hoped that the gas would reach the Alaskans who were most in need.

[9:50:11 AM](#)

PAUL GROSSI, ALASKA PIPE TRADES AND IRONWORKERS OF ALASKA, JUNEAU, testified in support of SB 138. He noted that the bill was complicated and that it was important that the committee take the time to get it right, particularly in the area of Alaska hire.

[9:51:56 AM](#)

JULIE DUQUETTE, ASSOCIATED BUILDERS AND CONSTRUCTORS OF ALASKA, JUNEAU, spoke in strong support of SB 138.

[9:52:52 AM](#)

CHUCK WIEGERS, SELF, JUNEAU, testified in support of SB 138.

[9:54:09 AM](#)

Co-Chair Kelly CLOSED public testimony.

[9:54:22 AM](#)

AT EASE

[9:56:56 AM](#)

RECONVENED

[9:57:03 AM](#)

Co-Chair Kelly reminded the committee to try to get amendments to the bill to his office by Friday.

SB 138 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[9:57:43 AM](#)

The meeting was adjourned at 9:57 a.m.