

SENATE FINANCE COMMITTEE
March 14, 2014
10:16 a.m.

10:16:16 AM

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 10:16 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
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Michael Pawlowski, Deputy Commissioner, Strategic Finance, Department of Revenue; Joe Balash, Commissioner, Department of Natural Resources; Tim Grussendorf, Staff, Senator Lyman Hoffman; Bruce Campbell, Staff, Senator Pete Kelly; Susan Pollard, Assistant Attorney General, Oil, Gas, and Mining Section, Department of Law.

PRESENT VIA TELECONFERENCE

Joe Dubler, Vice President and Chief Financial Officer, Alaska Gasline Development Corporation.

SUMMARY

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

CSSB 138(FIN) was REPORTED out of committee with a "do pass" recommendation as amended with a previously published fiscal impact note: FN4 (REV); one new fiscal impact note from the

Department of Natural Resources, one new fiscal impact note from the Department of Revenue, three new fiscal impact notes from the Department of Commerce, Community and Economic Development, and a letter of intent from the Senate Finance Committee.

#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."

[10:16:40 AM](#)

Vice-Chair Fairclough MOVED to ADOPT the proposed committee substitute for SB 138 (FIN), WORK DRAFT 28-GS2806/R (Bullock, 3/12/14) as a working document.

Co-Chair Kelly OBJECTED for the purpose of discussion.

[10:18:41 AM](#)

AT EASE

[10:19:19 AM](#)

RECONVENED

JOE DUBLER, VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, ALASKA GASLINE DEVELOPMENT CORPORATION (via teleconference), discussed the new Department of Commerce, Community and Economic Development (DCCED) fiscal note appropriated to the Alaska Gasline Development Corporation (AGDC). He referenced the AKLNG Expenditure Summary analysis on page 4, of the fiscal note that contained the projects total expenditure summary during the PreFEED (pre-front-end engineering and design work) stage. He relayed that the total appropriations included expenditures for FY 14 through FY 17. The expenditures for FY 16 and FY 17 would need future legislative appropriation. He reported

that the expenditure for personal services was \$4.41 million.

Co-Chair Kelly interjected that \$66 million of the total appropriations was included in the FY 14 supplemental budget.

Mr. Dubler answered in the affirmative.

Mr. Dubler listed the other project services expenditures: \$15.1 million for contractual services, \$2.4 million for travel, \$988.2 thousand for the lease for office space, \$582.6 thousand for ADGC board expenses, and \$230 thousand for capital outlay. He turned to the expenditure for State Equity Participation, which reflected the state's 25 percent interest in the LNG facility [\$57.8 million]. He moved to the State 40 percent Option on TransCanada for \$42.25 million and detailed that the state negotiated a 40 percent buyout on TransCanada's midstream operations. He defined "midstream" as including the North Slope treatment facility and the main pipeline from the North Slope to Big Lake. He identified the expenditure for the State's Guarantee of TransCanada [\$70.1 million] and noted that the state negotiated the reimbursement for all of TransCanada's midstream expenses plus an interest rate of 7.1 percent if the project was terminated for any reason other than TransCanada's voluntary withdrawal from the project as contained in the Memorandum of Agreement (MOU). The project total was \$194 million.

Mr. Dubler drew attention to page 2 of the fiscal note and read the following:

This bill expands the purpose of the Alaska Gasline Development Corporation (AGDC) by authorizing it to participate in advancing an Alaska liquefied natural gas project (AKLNG) while continuing to advance the in-state natural gas pipeline project...

Mr. Dubler related that AGDC would continue to advance both projects while avoiding intermingling or conflicts of interest. He listed the additional positions that AGDC would need to hire for the AK LNG project:

1 - VP, \$410.0 annual burdened salary (\$250.0 + benefits)

- 1 - Program Manager, \$410.0 annual burdened salary (\$250.0 + benefits)
- 1 - Contract Compliance Officer, \$196.8 annual burdened salary (\$120.0 + benefits)
- 1 - Senior Accountant, \$164.0 annual burdened salary (\$100.0 + benefits)
- 2 - Administrative Assistant, each at \$106.6 annual burdened salary (\$65.0 + benefits)

Mr. Dubler noted that AGDC would engage in contract negotiations for approximately 50 contracts. The TransCanada transactions and AK LNG project billings would require an additional accountant. The two administrative assistants were necessary for staff support.

Mr. Dubler communicated that other project related expenditures were necessary in support of personal services. The majority of the project related expenditures were for contractual services. The corporation planned to hire as many contractors as possible to maintain the flexibility to add or remove staff according to project needs. He related that AGDC anticipated hiring two legal contractors full time for approximately two years at approximately \$600,000 in annual salaries (approximately \$300 per hour) to support AGDC's efforts in deal origination and negotiation. He indicated that AGDC would hire three commercial contractors to assist in negotiations on gas marketing and gas distribution. He noted that the pipeline would contain five off take points along the route. The corporation would need to work with communities along the pipeline route in order to ensure participation and adequate infrastructure for gas delivery. He reported that AGDC would hire three full time gas marketing contractors focused on marketing LNG gas overseas at a cost of approximately \$400 thousand per year.

Mr. Dubler expected that AGDC would hire five engineering contractors for the following: North Slope facility, pipeline, LNG facility, and two subject matter experts. The project engineers would oversee the work that was being done by the AK LNG project. He referenced the travel expenses of \$2.4 million on page 3 of the fiscal note. He stated that most of the meetings that AGDC held were located in Anchorage, Seattle, Washington and Houston, Texas. Extensive and frequent travel expenses will be incurred by senior corporate staff. He moved to the AGDC board appropriation and anticipated that its board meetings

would run once per month and would take up to several full days due to the increased responsibilities from the AK LNG project [\$582.6 thousand]. He pointed to the capital outlay expenses of \$230 thousand for communications equipment, Information Technology, and furnishings for expanded staff. He discussed the Capital Investment and Participation Expenditures. He reported that AGDC's share of the pre-feed LNG facility technical costs set at 25 percent equity participation were estimated at \$42.5 million of the \$170 million total. The corporation anticipated that an additional \$2 million will be required to cover AGDC's share of nontechnical project costs that included items such as public outreach for a subtotal of \$44.5 million.

[10:29:25 AM](#)

Vice-Chair Fairclough referred to Mr. Dubler's comments that government lobbying was prohibited from AGDC's portion of the nontechnical project costs.

Mr. Dubler confirmed the statement and acknowledged AGDC's restriction on spending state funds to lobby state government.

Vice-Chair Fairclough inquired whether AGDC could lobby the federal government for the export permit.

Mr. Dubler answered that the application process for the export permit was not considered a lobbying effort.

Vice-Chair Fairclough wanted to ensure that the language in the CS allowed the state to apply to the Federal Energy Regulatory Commission (FERC) for the export permit.

Co-Chair Kelly requested that Mr. Dubler follow up on the concern.

Mr. Dubler agreed. He continued to speak to the fiscal note and related that AGDC included a 30 percent contingency [\$13.3 million]. He explained that the estimated project total of \$435 million was a rough approximation that initially was as high as \$450 million to \$550 million. The contingency would allow AGDC to continue participating in the project if a "cash call" for expended funds was required by the lead participant. If AGDC did not have adequate funds the corporation would be in default and barred from the project. He pointed to the state's 40

percent buy-out option on TransCanada midstream interests of \$26.5 million. If exercised, TransCanada was entitled to a reimbursement for all of its non-technical costs on the 40 percent of its midstream interest estimated at \$6.0 million subtotaling \$32.5 million. In addition, a 30 percent contingency of \$9.75 million was added for a total of \$42.25 million.

Mr. Dubler drew attention to the TransCanada Investment Return Guarantee expenditure on page 4 of the fiscal note. He communicated that if TransCanada failed to progress to the FEED stage of the project, the MOU between the State and TransCanada required the state to include the Pre-FEED costs of 15 percent on TransCanada's midstream share of the total project costs amounting to \$265 million, which totaled \$39.75 million plus any non-technical and developmental cost allocations estimated at \$9 million subtotaling \$48.75 million. In addition, the 30 percent contingency of \$14.625 million and the 7.1 percent return on the investment AFUDC (allowance for funds used during construction) of \$6.749 million were included for the total buy-out costs of \$70.124 million. He reiterated that the total FY 14 supplemental costs associated with the fiscal note total appropriation was \$66.726 million.

Co-Chair Kelly inquired whether the request in the current year was \$66.726 million and that all of the fiscal note expenditures would take place between enactment of the legislation and the FEED stage.

Mr. Dubler replied in the affirmative.

Co-Chair Kelly questioned whether the remaining \$194.018 million required future legislative appropriation.

Mr. Dubler replied in the affirmative and relayed that at the same time the legislature could choose to exercise the 40 percent TransCanada midstream buy-out option.

Co-Chair Meyer inquired whether 30 percent was a usual or customary amount for a contingency fee. He thought that the amount was excessive.

MICHAEL PAWLOWSKI, DEPUTY COMMISSIONER, STRATEGIC FINANCE, DEPARTMENT OF REVENUE, replied that he did not have an opinion on the contingency fee and stated that the project manager would be better suited to answer the question.

10:38:14 AM

AT EASE

10:40:22 AM

RECONVENED

Mr. Pawlowski observed that the \$70 million expenditure for the investment return guarantee and the state's 40 percent buy-out option with TransCanada would be a "participatory decision" with the legislature. The costs were "outliers" that might or might not occur.

Co-Chair Kelly noted that members were questioning a contingency as large as 30 percent. He noted that 30 percent was probably not excessive considering the real possibility of project cost increases of up to 25 percent. He requested further justification for the 30 percent contingency.

Mr. Dubler stated that the project was at the "conceptual level" and that accurate cost estimations for a three year period was extremely difficult. The corporation felt that the current estimates were low and had included the 30 percent contingency to allow for AGDC's continued participation in the event of cost overruns. He relayed that the producers were including contingencies in their cost estimates and TransCanada supported the 30 percent figure.

Co-Chair Kelly reminded the committee that the costs were estimates and much of the appropriation would not be expended in the current budget cycle. He supported the 30 percent contingency language. He asked Mr. Pawlowski to briefly summarize why the administration felt the relationship with TransCanada was a benefit to the state.

Mr. Pawlowski responded that the benefit of the TransCanada partnership, beyond its expertise and support for the state, was the commitment of capital; if TransCanada was not in the position of carrying the state's share in the midstream Pre-Feed portion of the project, the appropriation requests would be significantly higher. He pointed out that the move by the committee to take a larger share of the gas and a larger position in the project was supported by the partnership with TransCanada and in the long term interest of the state.

Co-Chair Kelly wanted to discuss the new Department of Natural Resources (DNR) fiscal note in the amount of \$8.961.7 million in FY 2015.

JOE BALASH, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, reported that the department's fiscal note remained unchanged from the original version of the legislation. The expenditures were related to the department's participation in developing the upstream and marketing agreements, which included contractual spending for legal counsel and consultant expertise.

Senator Bishop wondered whether the department would encounter difficulty in recruiting consultants with the required expertise.

Commissioner Balash thought that the opportunity to be part of the project would attract the required caliber of staff necessary to succeed.

Co-Chair Kelly continued with the fiscal notes. He cited the new zero CCED fiscal note appropriated to the Alaska Energy Authority (AEA). He pointed to a new zero fiscal note appropriated for Fund Capitalization.

Co-Chair Meyer interjected that the DCCED [AEA] fiscal note contained a capital cost [\$1.375. million].

Co-Chair Meyer requested a summary of the fiscal notes.

Co-Chair Kelly requested that additional information on the AGDC fiscal note was sent to members before the bill went to the Senate floor for a vote.

Mr. Dubler agreed.

[10:53:19 AM](#)

AT EASE

[11:00:22 AM](#)

RECONVENED

Vice-Chair Fairclough observed that there were two AGDC fiscal notes that both referenced the \$66.726.7 million FY 14 supplemental cost and asked for clarification.

Mr. Dubler explained that the first DCCED fiscal note he previously discussed granted the actual authority to spend the fund. The fund source code listed on the fiscal note (1178 temporary code) was the fund that the other new Fund Capitalization fiscal note created. The Fund Capitalization fiscal note transferred the \$66.726 million into the Large Diameter Natural Gas Pipeline Fund and the DCCED [AGDC] fiscal note authorized expenditures from the fund.

Vice-Chair Fairclough requested additional clarification.

Mr. Dubler replied that the Fund Capitalization fiscal note transferred the \$66.726.7 million from the general fund into the Large Diameter Natural Gas Pipeline Fund established in SB 138. He recounted that once the funds were transferred into the pipeline fund the DCCED [AGDC] fiscal note authorized expenditures from the fund.

Mr. Pawlowski communicated that the other fiscal notes had previously been submitted by DOR and that there were no changes from the previous versions. He delineated that the DOR (FN 4 (REV) fiscal note appropriated \$250 thousand to the Department of Law for developing regulations regarding the new tax provisions and \$500,000 was appropriated for contracts to upgrade the tax revenue management system to reflect the tax law changes in SB 138. He reported that the new DOR fiscal note in the amount of \$500 thousand was a direct result of an amendment added in the Senate Resource Committee version mandating DOR to undertake a study to determine how individual Alaskans can invest in the pipeline project, which was expanded to municipalities and regional corporations in the Senate Finance Committee.

Co-Chair Meyer inquired what the total FY 14 expenditure was.

[11:06:12 AM](#)

AT EASE

[11:07:21 AM](#)

RECONVENED

Co-Chair Kelly related that the committee was in the process of verifying the fiscal notes for the record.

[11:07:48 AM](#)

AT EASE

11:09:32 AM

RECONVENED

Mr. Pawlowski recounted that in FY 15, the appropriations for DOR were \$750 thousand and \$500 thousand. The FY 15 appropriation for DNR totaled \$8.961.7 million and \$1.375 million in capital costs that were appropriated for AEA. The total in FY 15 was \$11.586.7 million. He added that \$1.394 million from the AGDC fiscal note was not counted in the total because the money was coming from the FY 14 appropriation of \$66.726.7 million.

Co-Chair Kelly noted that the \$1.394 million was a capital appropriation.

Co-Chair Meyer wondered what the fund source for the funding was.

Mr. Pawlowski replied that the fund source was the general fund.

Co-Chair Meyer inquired if the source of the general funds was the Statutory Budget Reserve (SBR).

Mr. Pawlowski responded in the affirmative.

Co-Chair Kelly requested that Commissioner Balash provide a brief synopsis of the Senate Finance Committee's changes to SB 138.

Commissioner Balash communicated that the committee enabled the process to advance to the PreFEED phase and develop the next round of agreements. The legislation authorized DNR to participate in the project at the 25 percent threshold and provided a process for advancement of the project, which included briefing legislative committees in executive session. Additionally, the committee had identified AGDC's role very clearly in terms of the agreements that it would sign. He emphasized that AGDC would be the signatories for the equity agreements. Consequently, a midstream services agreement between DOR and DNR was necessary. AGDC would be the signatory for the agreements along with the producers and TransCanada. The rest of the agreements: royalty, fiscal, upstream balancing, off take agreements, LNG marketing, and the mid-stream services agreements would require the signatures of DOR and DNR. He thought that the committee had clearly identified the roles and

responsibilities of the departments and AGDC. He added that AGDC was authorized to promote both the AK LNG project and the in-state gas pipeline project efficiently with the option to pursue either project in the future.

[11:15:38 AM](#)

AT EASE

[11:15:59 AM](#)

RECONVENED

Co-Chair Kelly WITHDREW his OBJECTION. There being NO further OBJECTION, WORK DRAFT 28-GS2806/R (Bullock, 3/12/14) was ADOPTED as a working document.

[11:16:07 AM](#)

AT EASE

[11:45:11 AM](#)

RECONVENED

Co-Chair Kelly introduced Amendment 1.

[11:46:02 AM](#)

AT EASE

[11:51:19 AM](#)

RECONVENED

Senator Bishop MOVED to ADOPT Amendment 1 28-GS2806\R.1, Nauman/Bullock 3/13/14 (copy on file):

Page 2, line 4, following "gas;";
Insert "relating to the oil or gas producers education credit;"

Page 30, line 19, following "programs," :
Insert "equipment,"

Page 30, line 20, following "school":
Insert ", a nonprofit regional training center recognized by the Department of Labor and Workforce Development, and an apprenticeship program in the state that is registered with the United State Department of Labor under 29 U.S.C. 50- 50b (National Apprenticeship Act)"

Page 31, line 1:
Delete "and"
Following "2012"
Insert "and sec. 36 of this Act"

Page 31, line 10-11:
Delete all material and insert:
"(3) for vocational education courses, programs, equipment, and facilities by the state-operated vocational technical education and training school, a nonprofit regional training center recognized by the Department of Labor and Workforce Development, and an apprenticeship program in the state that is registered with the United State Department of Labor under 29 U.S.C. 50-50b (National Apprenticeship Act); and"

Co-Chair Kelly OBJECTED for the purpose of discussion.

Senator Bishop spoke to Amendment 1. He offered that the intent of the amendment was to increase and improve the workforce for the 15,000 direct and 25,000 indirect jobs that would be created from a gasline system. He delineated that roughly three years ago the Department of Labor and Workforce Development (DOL) had identified about 15 regional training centers however, the centers were ineligible for the education tax credit that was enacted under previous oil and gas legislation. He pointed out that the amendment qualified the training centers for the tax credit and included apprenticeship programs.

Co-Chair Kelly asked what type of apprenticeship programs qualified for the credit.

Senator Bishop answered that union, non-union, jointly administered trust, and single employer apprenticeship programs all qualified for the tax credit.

Co-Chair Kelly WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment 1 was ADOPTED.

Senator Hoffman MOVED to ADOPT Amendment 2, 28-GS2806\R.2, Bullock, 3/13/14 (copy on file):

Page 2, line 13, following "development;":
Insert "establishing the rural capital energy fund;"

Page 11, following line 26:

Insert a new bill section to read:

"*Sec. 13. AS 37.05 is amended by adding a new section to article 6 to read:

Sec. 37.05.610 Rural capital energy fund.(a) The rural capital energy fund is created as a special amount in the general fund. The fund consists of the amount determined and deposited in the fund under (b) of this section and interest earned on the fund balance. The purpose of the fund is to provide a source from which the legislature may appropriate money to develop infrastructure to deliver energy to areas of the state that are not expected to have or do not have direct access the a North Slope natural gas pipeline.

(b) The amount to be deposited in (a) of this section is 30 percent of the revenue received from the state's royalty gas transported in an Alaska Liquefied natural gas project that remains after the payment to the Alaska permanent fund under AS 37.13.010.

(c) The Legislature may make appropriations from the rural capital energy fund for the purpose described in (a) of this section.

(d) Nothing in this section creates a dedicated fund.

(e) In this section,

(1) "Alaska Liquefied natural gas project" had meaning given in AS 31.25.390;

(2) "North Slope natural gas pipeline" has the meaning given in AS 42.06.630."

Renumber the following bill sections accordingly.

Page 13, line 21:

Delete "sec. 13"

Insert "sec. 14"

Page 17, line 11:

Delete "sec. 16"

Insert "sec. 17"

Page 21, line 3:

Delete "sec. 26"

Insert "sec. 27"

Page 24, line 27:

Delete "sec. 29"

Insert "sec. 30"

Page 52, line 31:

Delete "sec. 15"
Insert "sec. 16"

Page 53, lines 18-19:
Delete "sec. 22"
Insert "sec. 23"

Page 54, line 17:
Delete "sec. 13"
Insert "sec. 14"

Page 55, line 29:
Delete "Sections 1-13, 15, 16, 22-26, 28, 29, 36,
38, and 54-61"
Insert "Sections 1-14, 16, 17, 23-27, 29, 30, 37,
39, and 55-62"

Page 56, line 1:
Delete "secs. 62 and 63"
Insert "secs. 63 and 64"

Co-Chair Kelly OBJECTED for the purpose discussion.

Senator Hoffman MOVED to ADOPT Amendment 2 with the following modification:

Page 1, line 14:
Delete "30"
Insert "10"

Co-Chair Kelly stated that the motion needed to be offered as an amendment to Amendment 2 and would be addressed later.

TIM GRUSSENDORF, STAFF, SENATOR LYMAN HOFFMAN, spoke to amendment 2 and related that the amendment's intent was to respond to members' concerns that all regions of the state would benefit from the proposed LNG pipeline. He explained that Section 59, page 53 of the current version of the legislation (CS Work Draft SB 138 (FIN) 28-GS2806/R) directed AEA and Alaska Industrial Development and Export Authority (AIDEA) to develop a plan and make recommendations to the legislature by January 1, 2017 on infrastructure needs to develop and deliver any type of affordable energy to all regions of the state without direct access to the North Slope natural gasline. The amendment established a fund from the natural gas pipeline

royalties. He noted that line 14 established the rate of 30 percent and would be drawn on the amount after the deposit to the permanent fund. He cited line 18 (c) that clarified that the legislature "may" authorize the appropriation in order not to commit future legislatures. He referenced line 20 (d) that specified that the fund would not be dedicated. He reported that the rest of the amendment contained definitions and conforming changes.

Co-Chair Kelly MOVED to AMEND Amendment 2 with the following change:

Page 1, line 14:
Delete "30"
Insert "10"

There being NO OBJECTION, Amendment 2 was AMENDED.

Co-Chair Meyer noted that he liked the amended version of Amendment 2, set at 10 percent instead of 30 percent much better, but thought that the project would benefit the entire state of Alaska. He opined that "a rising tide raises all ships" and thought that there would be more revenue coming into the general fund, which would result in more funding to distribute throughout the state. He expressed concern that the amendment was potentially taking money from future legislatures who might need the money for Medicaid, the unfunded liability, or education. He stated that the state had well over one hundred different fund sources and that the amendment was creating another fund. He noted that there were already several funds set up to address the energy problems in Rural Alaska. He pointed to the Power Cost Equalization (PCE) Fund and noted that it had a large endowment for Rural Alaska. He mentioned the Low Income Home Energy Assistance Program (LIHEAP) and the Renewable Energy Fund and related that most of the programs' funding was going to rural Alaska. He believed that Alaska already had a lot of funds that addressed energy needs in Rural Alaska, but understood that some needs were not being addressed. He reiterated his concern that the consequences of adopting Amendment 2 would take away some flexibility and options for future legislators that might need the funding in the general fund.

[11:59:18 AM](#)

Senator Hoffman offered that the problem with the high cost of energy in Alaska was that people were leaving Fairbanks, Rural Alaska, and the state. He wondered what good the legislature was doing developing energy resources if it could not address the energy needs of Alaskans. He thought that Alaska needed to monetize the gas, but that it needed to be sure that all Alaskans benefited from the lower energy costs. He felt that Alaskans agreed with his belief that Alaskans should benefit from energy development through reduced energy costs. He related that even with all of the energy assistance programs, people in Rural Alaska were still spending 40 percent to 60 percent of their disposable income on energy needs. He believed that if people were paying 40 percent to 60 percent of their disposable income on energy needs in any urban community, remedial action would be taken.

Senator Hoffman furthered that the effect of the amendment would not be immediate. The state would have to wait at least eighteen years before the pipeline could provide relief from high energy costs. He felt that the amendment gave hope to all Alaskans.

[12:02:16 PM](#)

AT EASE

[12:02:45 PM](#)

RECONVENED

Vice-Chair Fairclough inquired whether any effective dates in the bill were altered by Amendment 2.

Senator Hoffman replied that effective dates would not be affected by the amendment.

Vice-Chair Fairclough requested clarification on the record regarding what the definition of "rural" was. She pointed out that her district had a rural component even though it was close to an urban center.

Senator Hoffman stated that for the purposes of the rural capital energy fund the amendment specified who would benefit from the fund on line 12:

...areas of the state that are not expected to have or do not have direct access to a North Slope natural gas pipeline.

Vice-Chair Fairclough appreciated the clarification and noted that there were many different definitions in Alaska statutes to describe "rural".

Co-Chair Kelly supported the language in the amendment.

Senator Dunleavy supported the amendment and wanted to be added as a sponsor to Amendment 2. He offered that he represented a district where some areas would not have direct access to the gas pipeline.

Co-Chair Kelly commented that after much committee discussion he thought that Senator Hoffman was on the right track offering the amendment in order to ensure that the entire state benefited from the project.

Co-Chair Kelly WITHDREW his OBJECTION.

Senator Olson wanted the public to be aware that the committee was looking out for all of the residents of the state. He disagreed with Co-Chair Meyer's comment that "a rising tide raises all ships." He believed that the natural gas pipeline would not benefit isolated areas of the state in Rural Alaska. He pointed out that Alaska was an "owner" state and all of the residents of Alaska owned the resource. He wanted to help all of the "disenfranchised" people of the state that pay high energy costs and would not benefit from the resource when the gas pipeline was operational. He thanked the committee for its support of the amendment especially for the residents that would benefit from its adoption.

Co-Chair Kelly believed that the legislature would look back at Amendment 2 as a legacy decision creating a legacy fund.

There being NO further OBJECTION, Amendment 2 was ADOPTED as amended.

Co-Chair Kelly MOVED to ADOPT Amendment 3, 28-GS2806\R.3, Bullock, 3/13/14 (copy on file):

Page 8, line 22-24:

Delete ", but may not use money appropriated for the purposes as described in AS 31.25.005(5)"

Page 9, lines 8-9"

Delete ", but the corporation may not use the money appropriated to the fund for the purposes described in AS 31.25.005(4)"

Page 9, line 20-23:

Delete "A subsidiary corporation created under this section may be incorporated under AS 10.20.146 - 10.20.166, or other law applicable to the incorporation of the subsidiary corporation. Subject to the exceptions and"

Insert "Subject to the"

Page 9, line 25, following "[":

Insert "A SUBSIDIARY CORPORATION CREATED UNDER THIS SECTION MAY BE INCORPORATED UNDER AS 10.20.146 - 10.20.166"

[12:11:15 PM](#)

BRUCE CAMPBELL, STAFF, SENATOR PETE KELLY, spoke to Amendment 3. He relayed that AGDC had operated as two distinct subsidiaries; one in the interest of the in-state gas pipeline and another in the interest of the AK LNG project. In an effort to create efficiencies, the previous committee removed the separation that caused AGDC to act as two subsidiaries. However, the language prohibiting the corporation from expending funding appropriated to one fund for the purposes of another remained in the bill. He expounded that the amendment maintained the funds separation but removed the prohibition to allow operational efficiency and avoid needing separate staff for each fund.

Co-Chair Kelly WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment 3 was ADOPTED.

Co-Chair Kelly moved to Amendment 4 and explained that the amendment addressed a change that the committee included in the current version of the bill, which related to the restriction on employment subsequent to work on the AK LNG project. He indicated that the language in the previous amendment was too restrictive and may have unintended consequences. The language already existed in ethics statutes.

Co-Chair Kelly MOVED to ADOPT Amendment 4, 28-GS2806\R.4, Bullock, 3/14/14 (copy on file):

Page 2, lines 5-7
Delete all material.

Page 52, line, through page 53, line 8:
Delete all material.

renumber the following bill sections accordingly.

Page 55, line 29:
Delete "54-61"
Insert "54-60"

Page 56, line 1:
Delete "secs. 62 and 63"
Insert "secs. 61 and 62"

Co-Chair Meyer OBJECTED for the purpose discussion.

SUSAN POLLARD, ASSISTANT ATTORNEY GENERAL, OIL, GAS, AND MINING SECTION, DEPARTMENT OF LAW, discussed amendment 4. She described how the Executive Ethics Act affected public officers [employee] and employment restriction after leaving board membership or state employment. She detailed that the Amendment related to Section 57 in the current version of the bill and referenced the ethics act located in Title 39, Chapter 25, Section 100, which specifically restricted public employment after leaving state service. The bill did not change the act except for the uncodified law that related specifically to the contract negotiations in Section 13 of the bill. She elaborated that AS 39.52.180 limited a public officer (employee) or a board member "from accepting compensation for services after leaving state service related to a matter." "Matter" was specifically described in the act as "includes a case preceding application contract determination proposal or consideration of a legislative bill, a resolution, a constitutional amendment, or other legislative measure, proposal, consideration, or adoption of an administrative regulation." She added that "if a person participated personally and substantially in a particular matter they would be limited under the two year time period of the Executive Ethics Act from acting on the matter for compensation" subsequent to leaving state service.

Senator Olson referenced AS 39.52.010 regarding the public officers and employees under the Alaska Executive Branch Ethics Act. He read: "(6) no code of conduct, however

comprehensive, can anticipate all situations..." He believed the situation was unique; the state would be a partner in the largest project in North America. He wanted to avoid a situation where a former state employee involved in the AK LNG project would work for related industry after leaving state employment. He shared that a similar situation happened in the past.

Co-Chair Kelly asked whether the Executive Ethics Act would cover the scenario and if the act applied to commissioners.

Ms. Pollard explained that according to the act, after a public officer left state service a designated ethics supervisor would determine what matters the individual would be restricted from working on. The ethics act would apply to a commissioner but it would depend on each particular situation to determine whether the ethics act specifically applied.

Co-Chair Kelly asked whether the Executive Ethics Act envisioned specific scenarios similar to the situation Senator Olsen described.

Ms. Pollard remarked that someone substantially involved in a contract negotiation would be prohibited, under the act from other employment involved in that particular matter.

Vice-Chair Fairclough wanted to ensure that any effective date and section number changes due to adoption of multiple amendments would be accurately revised in the final version of the legislation.

Mr. Campbell responded that Section 37 had a different effective date of January 1, 2021 and Section 62 and Section 63 had effective dates of January 1, 2015 and would be appropriately revised by Legislative Legal Services.

Co-Chair Kelly noted that legal services had orders to conform all of the amendments to the actions taken by the committee.

Co-Chair Meyer WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment 4 was ADOPTED.

12:22:51 PM
AT EASE

12:24:39 PM

RECONVENED

Mr. Campbell spoke to the technical drafting corrections (copy on file):

- 1) Page 16, line 20: Delete: "form" replace with "from"
- 2) Page 17, line 29: Delete: "form" replace with "from"
- 3) Page 10, Lines] 5 & 16, Section 12, (7)(C). Style issue, there appears to be an extra "and" or one too many commas.
- 4) Page] 9, line 25, after "from state oil and gas", insert: "and gas only" Conforms language to the technically correct reference in DNR statutes, per the convention throughout 38.05, which refers to "oil and gas and gas only" leases.
- 5) Page 52, line 31, after "enacted by section"
Delete: "15" insert "13"

Mr. Campbell turned to the "Summary of Proposed Changes" (copy on file). He indicated that the changes were the amendments drafted into the current version from prior committee actions.

Senator Bishop read the Letter of Intent (copy on file):

Letter of Intent for SB 138

It is the intent of the Alaska State Legislature that the Alaska LNG project honor the commitments, as copied below, made in "Article 11: Alaska Hire and Content", agreed to in the Heads of Agreement by and among the Administration of the State of Alaska, Alaska Gas-line Development Corporation, TransCanada Alaska Development Inc., ExxonMobil Alaska Production Inc., ConocoPhillips Alaska, Inc., and BP Exploration (Alaska) Inc. through construction of the project.

ARTICLE 11: ALASKA HIRE AND CONTENT

11.1 For the Alaska LNG Project, the Alaska LNG Parties will, within the constraints of law:

- a. Employ Alaska residents and contract with Alaska businesses to the extent they are qualified, available, ready, willing and cost competitive;
- b. Use, as far as practicable, job centers and associated services operated by the State Department of Labor and Workforce Development;
- c. Participate with the State Department of Labor and Workforce Development to update the training plan for an LNG export project including main operations;
- d. Advertise for available positions locally and use, as far as practicable, Alaska job service organizations to notify the Alaska public; and
- e. Work with the State Department of Labor and Workforce Development and other organizations to provide training.

11.2 Prior to construction, the Alaska LNG Parties commit to negotiate in good faith project labor

Senator Dunleavy requested clarification that the Letter of Intent was not codified law.

Co-Chair Kelly answered in the affirmative.

Vice-Chair Fairclough MOVED to REPORT CSSB 138(FIN) out of committee as amended with individual recommendations and with the accompanying fiscal notes from the Senate Finance Committee. There being NO OBJECTION, it was so ordered.

[12:29:36 PM](#)

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ADJOURNMENT

The meeting was adjourned at 12:29 p.m.