

SENATE FINANCE COMMITTEE  
THIRD SPECIAL SESSION  
November 2, 2015  
9:51 a.m.

9:51:48 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:51 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Peter Micciche, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Laura Pierre, Staff, Senator Anna MacKinnon; Mark Myers, Commissioner, Department of Natural Resources; Jerry Burnett, Deputy Commissioner, Treasury Division, Department of Revenue; Bruce Tangeman, Vice President, Administration and Finance, Alaska Gasline Development Corporation; Pat Pitney, Director, Office of Management and Budget, Office of the Governor; Dave Blaisdell, Director, Administrative Services Division, Department of Law; Craig Richards, Attorney General, Department of Law; Representative Lora Reinbold.

PRESENT VIA TELECONFERENCE

Bruce Tangeman, Vice President, Administration and Finance, Alaska Gasline Development Corporation

SUMMARY

SB 3001 APPROP: LNG PROJECT & FUND/AGDC/SUPP.

CSSB 3001(FIN) was REPORTED out of committee with a "do pass" recommendation.

#sb3001

SENATE BILL NO. 3001

"An Act making supplemental appropriations; making appropriations to capitalize funds; making appropriations to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) in accordance with sec. 12(c), ch. 1, SSSLA 2015; and providing for an effective date."

[9:52:45 AM](#)

Co-Chair MacKinnon relayed that the committee would consider a committee substitute (CS) that included a proposal to buyout TransCanada from the AKLNG project. Additionally, the CS supported a new work program and budget for the state's partners through FY 16, and included a supplemental appropriation request of slightly over \$13 million. She detailed that \$10 million would go to the Department of Law (DOL) and \$3 million would be divided between the Department of Revenue (DOR) and the Department of Natural Resources (DNR).

Co-Chair Kelly MOVED to ADOPT the CS for SB 3001, Work Draft 29-GS3812\I (Wallace/Martin, 11/1/15).

Co-Chair MacKinnon OBJECTED for discussion.

[9:54:05 AM](#)

LAURA PIERRE, STAFF, SENATOR ANNA MACKINNON, discussed the explanation of the changes for the work draft (copy on file):

Section 1 (b) the company name for TransCanada was revised to reflect the appropriate entity TransCanada Alaska Midstream Partnership

Section 2 Page 1, line 13 - the Department of Natural Resources was inserted following the word assist

Page 2, line 2 - the following language was inserted:  
Money may be expended from the appropriation made in  
this section only for work completed during the fiscal  
year ending June 30, 2016

Section 3 The amount was revised from \$2,126,000 to  
\$1,849,500

Ms. Pierre elaborated that the revision in Section 3 had  
been at the request of the administration. She explained  
that the administration had looked at the request further  
and had decided it did not need as much money as originally  
determined. She continued to address the changes in the CS:

Section 3 Page 2, line 9 - The company name for  
TransCanada was revised to reflect the appropriate  
entity TransCanada Alaska Midstream Partnership

Page 2, line 10 - the following language was inserted:  
Money may be expended from the appropriation made in  
this section only for work completed during the fiscal  
year ending June 30, 2016

Section 4 The amount was revised from \$1,381,000 to  
\$1,045,500

Page 2, line 18 - the following language was inserted:  
Money may be expended from the appropriation made in  
this section only for work completed during the fiscal  
year ending June 30, 2016

Section 5 The company name for TransCanada was revised  
to reflect the appropriate entity TransCanada Alaska  
Midstream Partnership

Section 6 No changes

Section 7 No changes

Section 8 Sections 2-4 were added to the contingency  
clause

State of Alaska was removed

The company names were revised to reflect the  
appropriate entity: ExxonMobil Alaska LNG LLC,

ConocoPhillips Alaska LNG Company, and BP Alaska LNG  
LLC

Ms. Pierre expounded that Section 8 related to contingency language that had been revised to include Sections 2 through 4; the language had originally only applied to Section 5(b). She explained that the agencies would not receive the appropriation unless the work program and budget were adopted.

[9:57:22 AM](#)

Vice-Chair Micciche asked about the reason for the decrease in the figure for DOR in Section 4. Ms. Pierre explained that the administration had looked at the request further and had decided a lower amount was more appropriate.

Co-Chair MacKinnon WITHDREW her OBJECTION. There being NO further OBJECTION, Work Draft 29-GS3812\I was ADOPTED.

Co-Chair MacKinnon asked representatives from DOR and DNR to address the rationale for the decrease in the appropriation requests [in Sections 3 and 4 of the CS].

MARK MYERS, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, explained that the reduction in the request from DNR related to work being conducted by the Division of Oil and Gas and the Commissioner's Office to support the issue. He elaborated that Deputy Commissioner Marty Rutherford's full-time job was not the gasline, but she had been spending 50 percent of her time on the subject. He explained that the department would reallocate funds within the department to manage Ms. Rutherford's costs and workload associated with the subject. Additionally, the department had many staff working on the geological and geophysical aspects (looking at the gas, watching the gas supply, and negotiating the flattening of royalty rates, etcetera). He believed there was enough support in the division to move workloads around. The two commercial analyst positions spent that were 70 and 80 percent time gasline were not doing a significant amount of key work with royalty reopeners, lease sale terms, and oil sales that needed to be done within the upcoming six months; therefore, the department was looking to backfill the positions. The reductions had been to backfill the commercial analyst positions (the vacant positions had already existed) and to manage the workload with existing

staff for the other positions within the Commissioner's Office and the geological and geophysical work.

Co-Chair MacKinnon asked if Commissioner Myers had reviewed the CS and whether it was satisfactory to the department. Commissioner Myers replied in the affirmative. He believed she had done a great job considering the resource needs of the department. He added that DNR was working as a team with DOL and DOR. He relayed that many decisions were made in consultation with DOR because its tax gas was going in. He felt strong in the partnership and that the bill included the adequate resources needed for the fiscal year to work hard to get to successful negotiations.

10:00:50 AM

Co-Chair Kelly referred to talk about the gasline getting thrown into the budget discussion. He reassured the public that from the Senate's point of view it was necessary to keep the two issues separate. So as the department brought a supplemental appropriation before the Senate Finance Committee it would not get significant push back, though the committee did not like to play games with raising supplemental requests one year and dropping them the next. He stated that "nothing like that is going on" and believed there was significant support from the committee to ensure that the gasline was separate from some of the budget problems.

Commissioner Myers relayed that DNR saw the gasline as a critical effort. He stated it was a critical time to negotiate the project; therefore, the department had asked for resources to aid in a razor focus on getting through the complex commercial negotiation stage of the gasline at present. He elaborated that the resources meant the department could bring professional teams to the table to meet goals and to protect the state's interest. He was comfortable that the department was adequately staffed. Previously he had been pulling resources off of other areas to focus on the gasline, which had been straining and challenging; therefore, the increment would enable the department's gas team to focus on the particular effort for the upcoming six months.

Co-Chair Kelly agreed. He pointed out that despite the increase to the budget the committee was not objecting to the increment. He stated it was necessary to keep the

conversations about the budget and gasline separate. He acknowledged that the state could only do the project it could afford, but it could not pull the project down into a "nickel and dime" budget fight. He clarified his understanding that the increment was not small, but in relation to the larger project he believed it was not something to get too carried away with.

10:03:17 AM

JERRY BURNETT, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, echoed the comments made by Commissioner Myers. He explained that the department's audit masters and commercial analysts that that had been working on the project needed to get back to their core work at the Tax Division. The department was able to reprioritize the work of the deputy commissioner and others in its economic research group in order to make the reduction. He explained that the department wanted to ensure that the Tax Division's core functions were taken care of.

Co-Chair MacKinnon addressed that the legislature in consultation with DOR had attempted to reduce the department's budget in the past session. She stated that the conversations had been done in consultation and she did not believe DOR had been hit with anything unexpected. She communicated that in the coming session the legislature would be looking to DOR for leadership in understanding how to ensure the state was investing Alaska's money. She stated that the supplemental budget for DOR was more difficult than it was for DNR. She remarked that it had not been a surprise that the positions were not there.

Mr. Burnett shared that DOR had worked very closely with Co-Chair MacKinnon in the past. He explained that there had been an appropriation to DNR that was reduced, which contained money that would have been allocated to DOR through an RSA [Reimbursable Services Agreement]. He elaborated that the DOR budget had been built on the assumption that the funds would be received; therefore, it had been a surprise when the funds had not materialized. Additionally, the timing on the project had gone longer than anticipated by the department.

Co-Chair MacKinnon understood. She explained that the legislature was working to keep an eye on both the

opportunity for the AKLNG project and the reality of the state's current fiscal situation.

Co-Chair MacKinnon noted that the attorney general and others were on their way in from the airport. She remarked that Deputy Commissioner Rutherford had joined the meeting. She asked Bruce Tangeman [Vice President, Administration and Finance, Alaska Gasline Development Corporation] to speak to the CS and address any concerns the Alaska Gasline Development Corporation (AGDC) may have.

10:07:41 AM

BRUCE TANGEMAN, VICE PRESIDENT, ADMINISTRATION AND FINANCE, ALASKA GASLINE DEVELOPMENT CORPORATION (via teleconference), communicated that the language in the CS allowed AGDC to fully represent the state in completing pre-FEED [Front End Engineering and Design] once the work program and budget were approved.

Co-Chair MacKinnon noted that if Daniel Fauske, President, Alaska Gasline Development Corporation made it to the meeting the committee would ask him the same question. She identified a representative from TransCanada in the audience and gave them an opportunity to testify with any feedback or concerns about the CS. She indicated the representative shook their head in response. She was confident the response meant that the CS accurately described the LLC and the transfer the committee would discuss. She asked Office of Management and Budget Director Pat Pitney to address the committee. She explained that the changes in the CS were technical to ensure the appropriate entities were included in the document as well as in response to some concerns from the House.

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, addressed the addition in Section 2 to assist DNR through consultation with Commissioner Myers. She communicated that because of his role representing the entire project, the commissioner viewed any work DOL conducted on behalf of DOR and AGDC as "in assistance" of the overall agreement that DNR was also responsible for. She indicated that the administration could manage through the change. She clarified that the contracts would support DOR, DNR, and AGDC. She added that legal resources would also be available to the Department of Transportation and Public Facilities and Department of Labor and Workforce

Development if needed, which DNR believe stayed within the confines of the language. Additionally, the administration believed that with the letters in-hand from producers, the contingency language could be worked with.

[10:11:49 AM](#)

Co-Chair MacKinnon concurred that the goal of placing DNR specifically in Section 2 for DOL was the legislature's attempt to protect the wellhead value and to ensure that what the state was doing would protect wellhead value. She understood that DNR may authorize law work for other areas of state government. She relayed that from the perspective of the House, the work should be done consistent with SB 138 [legislation passed in 2014 related to a gas pipeline, AGDC, and oil and gas production tax], from and through DNR. She asked if her statements were accurate.

Ms. Pitney replied in the affirmative.

Co-Chair MacKinnon asked DOL to address the committee. She had hoped to hear from the attorney general, but understood that he was in route [from the airport]. She asked if DOL was comfortable with the CS.

DAVE BLAISDELL, DIRECTOR, ADMINISTRATIVE SERVICES DIVISION, DEPARTMENT OF LAW, replied in the affirmative. He relayed that the department had reviewed the CS and had spoken with other executive branch agencies.

Co-Chair MacKinnon remarked that she would invite Mr. Fauske and the attorney general to speak if they arrived during the meeting.

Senator Dunleavy requested time to review the changes to the legislation.

[10:14:40 AM](#)

AT EASE

[10:23:05 AM](#)

RECONVENED

Co-Chair MacKinnon invited the attorney general to address the committee. She communicated that Mr. Blaisdell had testified that DOL was comfortable with the CS. She explained that the CS included some technical changes and

some modified language in response to interest from the House. She asked if the attorney general had reviewed the CS. She relayed the committee's interest in understanding any potential concerns from the department.

CRAIG RICHARDS, ATTORNEY GENERAL, DEPARTMENT OF LAW, replied that he had just received a copy of the CS. From his perspective, there were no problematic issues. He believed the only component DOL had been concerned about was Section 2 that appropriated the money. He read from Section 2: "...and to provide legal and regulatory support for state participation in the Alaska liquefied natural gas project..." He believed the phrase meant that the funds could be used for state agency support other than DNR.

Co-Chair MacKinnon replied that Ms. Pitney had confirmed that the funds could be used for state agency support outside of DNR. She understood that under the structure of SB 138 that DNR had the responsibility to protect the wellhead and would absolutely need support from other state agencies to do so. She added that the money would feed through DNR so other state agencies would have access to the money.

Attorney General Richards replied that he did not believe there was any issue.

Senator Olson thought the CS was "polished" and considered it a good piece of legislation. He believed the departments had done an excellent job honing down the financial requests to the bare minimum needed. He encouraged the passage of the legislation.

[10:26:51 AM](#)

Vice-Chair Micciche thanked Co-Chair MacKinnon for her efforts in polishing the bill. He believed the bill clarified and assigned roles and responsibilities in a more precise way. He noted that DNR was allowed to protect the wellhead value under the legislation. He believed there were still some outstanding issues to work on. For example, AGDC would be working on third-party access and expansion agreements. He opined that DOL's role required additional evaluation. He appreciated TransCanada's agreement to leave employees (secondees) in place for a smooth transition, which he believed was extremely important. He remarked that ultimately the change would increase the value to the

state, while eliminating any outstanding question about liability under the Alaska Gasline Inducement Act (AGIA). He thought the legislation had the potential to improve internal alignment, which he believed the committee had identified as "somewhat lacking." He observed that the opportunity would only occur if it was taken seriously. He believed a focused effort was in order.

Co-Chair MacKinnon replied that it was a team effort. She recognized Representative Liz Vazquez, Representative Scott Kawasaki, and Senator Gary Stevens in the audience. She provided a summary of the CS. She explained that the CS was a request from the administration to buyout the state's partner TransCanada. She furthered that in the buyout the administration had presented an upside equity position that was possible with "a little bit additional risk and cash call for the State of Alaska." She relayed that the state's analysts saw the issue slightly more conservatively than the state's analyst Black and Veatch, but it appeared that there was upside for the state to put more money down. She agreed with the assertion that there was better alignment in the state's interest related to voting and it was possible the state may see some decisions differently than TransCanada. She relayed that the state was very interested in third-party access and the ability to expand the pipeline in the instance that additional resources were located somewhere along the 800-mile pipeline transition route.

Co-Chair MacKinnon continued that the bill also contained a work plan with a slightly expanded scope that had been agreed to by the state's partners. The administration had addressed whether a 42-inch pipe versus a 48-inch pipe would be more advantageous to Alaska in the expansion conversation and in the activity around providing other opportunities to find gas in Alaska for the pipeline. She communicated that the plan was ready for a vote on December 4 [2015] by the state's partners; if the legislation advanced, there would be four voting partners versus five. She detailed that Joe Dubler, Vice President and Chief Financial Officer, AGDC would cast an affirmative vote for the project on behalf of the state. She relayed that were two producers the governor had pointed to who were willing to commit gas to the project (though not necessarily a gas sales agreement). Additionally, the governor was in the process of actively negotiating the terms of a withdrawal agreement.

Co-Chair MacKinnon relayed that the bill contained a third component in the form of a supplemental request from three departments. The request had been reduced by the administration and was slightly under \$13 million. She detailed that \$10.1 million would go to DOL to help with contracts the state would establish to protect its interest moving forward with the pipeline. She continued that DOR had testified that significant work was being done to ensure audits were being completed in other areas of government outside of the AKLNG project and that additional funds through a supplemental appropriation were needed. She agreed with DNR's assertion that the wellhead value should be protected in DNR; the bill would place the marketing engine under DNR's control. She encouraged members to carefully consider that the state was in position it had not been in before. There was the potential to move a work program forward where the state would spend \$1 to every \$3 invested by the other parties. She communicated that the committee had received emails and phone calls from constituents concerned with Alaska taking an equity ownership interest in a project at all. She relayed that some of the individuals were supportive of buying TransCanada out, while others were not. She concluded that the discussion would continue on the Senate floor and in the House.

Co-Chair MacKinnon acknowledged Representative Lora Reinbold in the committee room. She thanked legislative staff for their work during the special session.

[10:35:54 AM](#)

Co-Chair Kelly MOVED to report CSSB 3001(FIN) out of Committee with individual recommendations. There being NO OBJECTION, it was so ordered.

[10:36:24 AM](#)

AT EASE

[10:39:25 AM](#)

RECONVENED

Vice-Chair Micciche explained that normally fiscal notes accompanied legislation; however, appropriations bills generally did not have a fiscal note.

CSSB 3001(FIN) was REPORTED out of committee with a "do pass" recommendation.

#  
ADJOURNMENT

10:40:08 AM

The meeting was adjourned at 10:40 a.m.