

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

April 25, 2005

3:33 p.m.

MEMBERS PRESENT

Senator Thomas Wagoner, Chair
Senator Ralph Seekins, Vice Chair
Senator Ben Stevens
Senator Fred Dyson
Senator Bert Stedman
Senator Kim Elton
Senator Gretchen Guess

MEMBERS ABSENT

All members present

OTHER MEMBERS PRESENT

Senator Gary Stevens

COMMITTEE CALENDAR

SENATE BILL NO. 113

"An Act relating to entry into and management of Gulf of Alaska groundfish fisheries."

MOVED SB 113 OUT OF COMMITTEE

CONFIRMATION HEARINGS:

Commissioners Select:

-Department of Environmental Conservation (DEC) - Kurt Fredriksson, Acting Commissioner of DEC

-Alaska Department of Fish and Game (ADF&G) - McKie Campbell, Acting Commissioner

CONFIRMATIONS ADVANCED

HOUSE BILL NO. 256

"An Act naming the Ruth Burnett Sport Fish Hatchery in Fairbanks."

MOVED HB 256 OUT OF COMMITTEE

Alaska Natural Gas Development Authority (ANGDA) presentation by Harold Heinze

HOUSE JOINT RESOLUTION NO. 9 am

Urging the United States Congress to honor the process and judgment of the federal courts in the case of the Exxon Valdez disaster and to refrain from enacting legislation that would affect the outcome of the courts' resolution of the case.

MOVED HJR 9 am OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 113

SHORT TITLE: GULF OF ALASKA GROUND FISH FISHERY

SPONSOR(S): SENATOR(S) STEVENS B BY REQUEST

02/23/05	(S)	READ THE FIRST TIME - REFERRALS
02/23/05	(S)	RES, FIN
03/09/05	(S)	RES AT 3:30 PM BUTROVICH 205
03/09/05	(S)	Heard & Held
03/09/05	(S)	MINUTE(RES)
03/16/05	(S)	RES AT 3:30 PM BUTROVICH 205
03/16/05	(S)	Scheduled But Not Heard
03/23/05	(S)	RES AT 3:30 PM BUTROVICH 205
03/23/05	(S)	-- Meeting Canceled --
04/01/05	(S)	RES AT 3:30 PM BUTROVICH 205
04/01/05	(S)	-- Meeting Canceled --
04/18/05	(S)	RES AT 3:30 PM BUTROVICH 205
04/18/05	(S)	Heard & Held
04/18/05	(S)	MINUTE(RES)
04/23/05	(S)	RES AT 10:00 AM BUTROVICH 205
04/23/05	(S)	Work Session to take <Public Testimony>
04/25/05	(S)	RES AT 3:30 PM BUTROVICH 205

BILL: HB 256

SHORT TITLE: RUTH BURNETT SPORT FISH HATCHERY

SPONSOR(S): REPRESENTATIVE(S) RAMRAS

04/06/05	(H)	READ THE FIRST TIME - REFERRALS
04/06/05	(H)	FSH, RES
04/11/05	(H)	FSH RPT 4DP
04/11/05	(H)	DP: HARRIS, WILSON, ELKINS, THOMAS
04/11/05	(H)	FSH AT 8:30 AM CAPITOL 124
04/11/05	(H)	Moved Out of Committee
04/11/05	(H)	MINUTE(FSH)
04/11/05	(H)	RES AT 1:00 PM CAPITOL 124
04/11/05	(H)	Moved Out of Committee
04/11/05	(H)	MINUTE(RES)
04/12/05	(H)	RES RPT 6DP 1NR
04/12/05	(H)	DP: GATTO, ELKINS, CRAWFORD, SEATON, RAMRAS, SAMUELS;

04/12/05 (H) NR: OLSON
04/14/05 (H) TRANSMITTED TO (S)
04/14/05 (H) VERSION: HB 256
04/15/05 (S) READ THE FIRST TIME - REFERRALS
04/15/05 (S) RES
04/25/05 (S) RES AT 3:30 PM BUTROVICH 205

BILL: HJR 9

SHORT TITLE: URGE CONGRESS HONOR EXXON VALDEZ JUDGMENT

SPONSOR(S): REPRESENTATIVE(S) LEDOUX

02/14/05 (H) READ THE FIRST TIME - REFERRALS
02/14/05 (H) RES, JUD
03/30/05 (H) RES AT 1:00 PM SENATE FINANCE 532
03/30/05 (H) Moved Out of Committee
03/30/05 (H) MINUTE(RES)
04/01/05 (H) RES RPT 6DP
04/01/05 (H) DP: OLSON, ELKINS, LEDOUX, CRAWFORD,
RAMRAS, SAMUELS
04/11/05 (H) JUD AT 1:00 PM CAPITOL 120
04/11/05 (H) Moved Out of Committee
04/11/05 (H) MINUTE(JUD)
04/12/05 (H) JUD RPT 4DP 3NR
04/12/05 (H) DP: GRUENBERG, ANDERSON, COGHILL, GARA;
04/12/05 (H) NR: KOTT, DAHLSTROM, MCGUIRE
04/19/05 (H) TRANSMITTED TO (S)
04/19/05 (H) VERSION: HJR 9 AM
04/20/05 (S) READ THE FIRST TIME - REFERRALS
04/20/05 (S) RES, JUD
04/25/05 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

KURT FREDRIKKSON
Commissioner-Select
Department of Environmental Conservation
410 Willoughby
Juneau, AK 99801-1795
POSITION STATEMENT: Confirmation candidate.

MCKIE CAMPBELL
Commissioner-Select
Department of Fish & Game
PO Box 25526
Juneau, AK 99802-5226
POSITION STATEMENT: Confirmation candidate.

REPRESENTATIVE RAMRAS
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Sponsor of HB 256.

HAROLD HEINZE, Executive Director
Alaska Natural Gas Development Authority (ANGDA)
Anchorage AK

POSITION STATEMENT: Gave ANGDA presentation.

SUZANNE HANCOCK
Staff to Representative LeDoux
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Presented HJR 9 for the sponsor.

ACTION NARRATIVE

CHAIR THOMAS WAGONER called the Senate Resources Standing Committee meeting to order at [3:33:51 PM](#). Present were Senators Ben Stevens, Stedman, Seekins, Dyson, Elton and Chair Wagoner.

SB 113-GULF OF ALASKA GROUND FISH FISHERY

CHAIR WAGONER announced SB 113 to be up for consideration.

SENATOR SEEKINS related that he had received a response briefing on the constitutional questions he had asked for in the last meeting.

[3:36:18 PM](#)

SENATOR BEN STEVENS, sponsor, recapped that this bill establishes a tool to help the Alaska Department of Fish and Game (ADF&G) ADF&G to meet management goals and he appreciated the latitude the chairman has given people to testify on it.

[3:37:16 PM](#)

SENATOR BEN STEVENS moved to pass SB 113 from committee with individual recommendations and attached fiscal note. There were no objections and it was so ordered.

[3:37:33 PM](#) - 3:38 - At ease

[3:38:08 PM](#)

SENATOR GUESS joined the committee.

[3:39:47 PM](#)

CHAIR WAGONER called the meeting back to order and said they would next take up confirmation hearings.

CONFIRMATION HEARINGS:

DEPARTMENT OF ENVIRONMENTAL CONSERVATION (DEC) COMMISSIONER-SELECT:

KURT FREDRIKSSON, Commissioner-select for DEC, reviewed his qualifications, extensive environmental schooling and training. He said the DEC needs to reinforce its core programs. The department is entrusted by the Legislature to do two primary things - to set environmental standards and enforce pollution control. The other major area is with sanitation and basically protecting human health from unsanitary practices.

MR. FREDRIKSSON noted a bill in the legislature for DEC to assume NPDES primacy under the Clean Water Act. He said:

That's a very important bill and it speaks to the very core mission of our department, which is to be responsible for environmental protection and to control pollution to our waters.

The reason he would like to be commissioner of DEC is because he believes in environmental conservation and believes in the people who work in the department.

[3:45:11 PM](#)

MR. FREDRIKSSON said he would like to move forward in several areas - one is succession planning. The department's average tenure for its 470 employees is a little over nine years.

We have a workforce that is graying. I'm very interested in seeing what we can do to not only bring the people who are in the department up into the jobs that will be vacated in the not-too-distant future by old timers, people who have long years tenure in the department, but I'm also interested in how we might reach out to the university system...to see how we can bring Alaska kids in through the university into the department through internship programs - make sure that the course work offered by the university is relevant for the Department of Environmental Conservation and hopefully give the Alaskan kids that are going through the school system an opportunity to get employed with the State of Alaska and the Department of Environmental Conservation.

[3:46:10 PM](#)

MR. FREDRIKKSON said he intends to reach out to the affected parties and to the stakeholder public to see what more the department can do to educate them about what it is intending to do before it's a completed deal. "I want to bring them in at the front end of the process and not wait until the tail end of the process."

[3:48:43 PM](#)

SENATOR SEEKINS asked his opinion of the state taking primacy for environmental regulations.

MR. FREDRIKKSON replied that the state has a constitutional mandate to be in control of its own affairs and it must be responsible for its environmental quality.

[3:51:02 PM](#)

SENATOR DYSON said he heard concerns about DEC personnel thwarting development and asked how he has persuaded this administration that he will not impede development of the state's natural resources.

MR. FREDRIKKSON responded:

I think my record speaks for itself. I've served - in fact for 12 years [and] I've been in a number of exempt positions. I think had I been too pro-environment, too anti-development or vice versa, I think, I probably would have been weeded out a long time ago. Where I focus my attention is on the law and is on the elected governor. I serve at the pleasure of the governor. I have a great deal of respect for state government and how it operates and the state constitution....

SENATOR DYSON asked how the department's performance should be measured in terms of state health concerns. The department's former commissioner, Ernesta Ballard, said:

Nice theory won't work. Basically we need to grade our performance based on how many of all those variables you bring other management. Is that a fair synopsis of that conversation?

[3:55:36 PM](#)

MR. FREDRIKKSON replied that he thought that was a fair synopsis. He said performance measures are critically important to the department and:

I do think we need to strive to have better measures that are reflective of real environmental conditions, real health conditions. So, I know we are working on that and I know we are going to have discussions in the future along those lines.

[3:56:23 PM](#)

SENATOR DYSON asked how he intends to streamline the process so that it's easier for development to go forward with more certainty.

MR. FREDRIKKSON replied that he thought the key to resource development in this state is to be aggressive about it in terms of environmental protection. The governor has put steps in place to bring that about and not by cutting environmental standards.

That's not the answer. We believe the answer is to move forward aggressively on the environmental protection standards. For example (National Pollutant Discharge Elimination System) NPDES - it is taking control over the process. It is getting down on the site getting site-specific information that applies to the questions at hand....

[3:58:06 PM](#)

CHAIR WAGNER asked about the proposed changes to the food codes and what he is going to do to assure the people who participate from the food industry that their concerns are addressed prior to implementing those regulations.

MR. FREDRIKKSON replied that he would demonstrate that he is accountable and is taking their comments into consideration.

I think the end product will demonstrate that. Ultimately the recourse to a concerned public is back through the executive branch as well as through the legislative branch.... Trust is not just earned by words; it's earned by demonstration.... You will trust me when I can demonstrate that I am trustworthy....

He said that he would record the public record and put it in the library so that everyone can have access to it.

[4:00:55 PM](#)

CHAIR WAGONER asked him if recent legislation directs the department to reduce its costs.

[4:01:06 PM](#)

MR. FREDRIKKSON replied that the actual legislation directed the department to train, test and certify food workers.

That's what we're attempting to do.... I expect the regulations we put out for public review will garner that public review - that there will be comments out there that will cause us to change the regulations that we public notice. I will not rubber-stamp any regulation that comes to me that is just the same as the public review draft.

[4:02:10 PM](#)

SENATOR SEEKINS asked him to comment on the concept that planned orderly growth and development of the State of Alaska consistent with the modern principles of stewardship is what they should be looking for. He always thought that stewardship meant wise use.

MR. FREDRIKKSON responded that the primary tool the department uses to regulate is called a permit, not a prohibition, and it must follow quality standards for air, food and water.

[4:03:20 PM](#)

SENATOR SEEKINS said he sees part of the objectives of the department to be eliminating confusion as to what the process is, so that someone can come in and have some kind of a reachable objective without having to revisit it - that there is a process that has an eventual exit.

That's probably one of the things that most concerns people when they talk to me about the process of permitting - that you can get to the point where a permit is issued or denied and if it's denied with a plausible reason why.... How are we doing in the department on that?

[4:04:37 PM](#)

MR. FREDRIKKSON replied that the department has suffered from that problem for many years - some projects don't know what's required of them and the process is too burdensome. The department has no easy-to-follow guidance on its website on whether a permit is needed or not. "We need to correct that.... And I think we are making inroads into that."

[4:05:26 PM](#)

He has been impressed with the basic materials the department now sends to people in sanitation guidance, for instance.

I think we need to work particularly on our permit procedures, what is required to comply with the state's environmental laws. We need to do more to reduce that burden and to make it a little more user-friendly....

[4:07:48 PM](#)

MR. FREDRIKKSON said it's important to recognize that environmental protection and resource management don't have clear divisional lines and his department works closely with ADF&G and DNR to try to not get in each other's ways when permitting projects. In many cases the DNR is the lead coordinating agency that helps to avoid snafus.

[4:08:34 PM](#)

SENATOR SEEKINS moved to forward Mr. Fredrikkson's name to the full body for consideration. There were no objections and it was so ordered.

[4:08:59 PM](#) - [4:10:54 PM](#) - At ease

MCKIE CAMPBELL, Commissioner-select for the Alaska Department of Fish and Game (ADF&G), reviewed his resume' for the committee. He said he lived in Alaska for 26 years, has worked for both the state and the legislature and has worked for himself for the last 10 years.

[4:13:23 PM](#)

He said his job with ADF&G was the best job he has ever had and the number and complexity of issues that he dealt with is the soul of Alaska. He has not had one hint of boredom since he has been back.

For me when I think about the role of fish and wildlife in Alaska, it is so much more important to us by orders of magnitude than it is to the residents of any other states that it just naturally follows to me we should have the very best fish and wildlife management agency in the country. And I think there was a time that we could say that. I also think that there are parts of the department we could say that

about now, but I also will say very frankly to you, the department is a little beaten down right now - in funding, in recruitment and a variety of issues. I noticed with interest - Curt and I had not talked about this - but when he talked about some of the things he was doing it was interesting. One of the things I've asked all directors to do is I want to see recruitment efforts, I want to see career ladders and I want to see succession plans. I was very interested to hear him say that. Because what's been sort of startling to me is how many folks are still there [from] when I was there before. The agency definitely has great - we have a few very bright young people.... But we don't have near enough bright young people coming up into the agency and that's something we absolutely have to change.

[4:15:45 PM](#)

MR. CAMPBELL said he wanted to work with the governor, legislature and all constituencies. He noted one thing that has changed is where funding comes from and a much higher percentage used to come from the general fund. Now, other than the fish and game fund, almost all the department's funding comes from federal funds. "And that's not an entirely healthy situation for a department. I look forward to many a series of conversations with you all about those."

He said he sent an E-mail to every member of the department the first day he was there asking them three questions - what things are being done now that could be done better and how, are there new initiatives and directions it should be taking and are there things it should not be doing. He said the department is making course corrections although somewhat slowly.

[4:18:47 PM](#)

MR. CAMPBELL concluded:

Overall I believe in my bones that fish and wildlife are both the soul of Alaska and a major economic engine for Alaska and that run properly, fish and game, in effect, can be a profit center for the state and enhance the use of those things that are most important to all of us.

[4:18:57 PM](#)

SENATOR STEDMAN asked how he would respond to PERS and TRS rehire issues "if the guillotine does fall."

MR. CAMPBELL replied that he has given it a great deal of thought. The department has 37 employees under the retire rehire category. He has looked at each of them individually and a few stretched the intent of the law as it was originally drafted. He has asked each director to have a list by the end of the next week of each person detailing when they would leave. He has not advocated for extension of the use of any new retire rehire, but has advocated fairly strongly for some temporary continuation of them.

Our issue - the way I've described this is - we have bleeding within the department. The source of the bleeding, quite frankly, is the 30 percent greater differential that the federal government pays biologists than we can, but the retire rehire we've used as a tourniquet. I'm very aware that the reliance on the use of a tourniquet for too long can, in and of itself, be very dangerous. It leads to this whole drain issue that I discussed, but there are times when that tourniquet can be real helpful. So, the bottom line I think to your question, what are we going to do. We are looking at a fishery-by-fishery basis. In some cases - and I don't have the full answer for you yet - we will have other people from other areas step in and try to take care of it and in other areas we'll have some people down below trying to take care of it. I'm trying to convince anybody I can to at least stick with us through the season and let us deal with that over the winter, but...

[4:22:11 PM](#)

SENATOR SEEKINS asked him to reiterate the mission plan of the Department of Fish and Game.

MR. CAMPBELL replied that the core mission statement of the department is:

To provide core services, to provide opportunity to use fish and wildlife resources, to insure sustainability and harvestable surplus of fish and wildlife resources, to provide information to all customers, to involve the public in management of fish and wildlife resources and to protect the state's sovereignty to manage fish and wildlife resources.

Then, it has three goals to optimize economic benefits from fish and wildlife resources - and I think I've spoken here about the economic engine, to optimize public participation in fish and wildlife pursuits and I would have to expand on that. And to increase public knowledge and confidence that wild populations in fish and wildlife are responsibly managed.

[4:23:45 PM](#)

SENATOR SEEKINS asked Mr. Campbell what he thought the goals of the department should be in terms of restoration and enhancement of depleted populations.

[4:24:09 PM](#)

MR. CAMPBELL replied that the department's goals talk about optimizing economic benefits and public participation. Depleted species in fish stock or game population reduces economic benefit and public participation and:

Frankly, you're making the public doubt whether or not things are being responsibly managed. So I think that speaks to all three goals. It then follows to me that where we do have depleted resources, we have to look at are there ways that we can bring them up. You know, I think we're very fortunate in Alaska being the only state that I'm aware of in the nation that actually has a separate section in its constitution on natural resources with some very specific language and guidance to us. That provides the background framework for this. I'd be happy to continue to expand if you like me to be more specific.

[4:25:34 PM](#)

SENATOR SEEKINS said that currently non-resident hunting has been shut down in many of the most popular areas in the state - not because of an increase in hunting pressure from residents, but because of the decrease in the populations. Unit 13 had 27,000 moose in its reproductive base and now it has 7,000 to 8,000. He said the size of the guide industry is a good indicator of non-resident hunting economic opportunity and he sees that it's on the ropes. Then he sees Texas that brings in over \$9 billion a year from non-resident hunting.

It seems over time the department has gone backward.... Our answer is simply to cut back the opportunity for humans to harvest. While the mission statement talks about pursuit, the people who buy a

license want to end with a successful harvest. And it seems like that is slipping away from us in many parts of the state. How do you intend to turn some of that around in the department?

[4:27:01 PM](#)

MR. CAMPBELL replied that he is happy to take full responsibility for everything that has happened in the last three weeks, but given the current situation, he is speaking specifically of game populations that through intensive management and specifically through predator control there may be an opportunity to bring up. In addition, other types of management can be used like habitat manipulation such fire and brush crushing.

I think strongly it is within the department's interests and all users' interests to look at possibilities where in the state it is appropriate to use better predator control and where it is appropriate to do so in an effective manner. As you're aware... we're a big state. We manage for different things in different areas of the state. I think that's right. In one area we may very appropriately manage for a maximum number of moose or caribou. Out on, for instance, the Aleutian Peninsula in some places, we manage for trophy bears and I think that that's appropriate. There are places on the Kenai, we manage not for maximum number of moose, but for largest size of trophy moose.

Alaska has, and I think this is usually a strength, but it has its drawbacks. We have 82 separate advisory committees plus the Board of Game and Board of Fish, an extraordinarily democratic management system in which the people of Alaska are intimately involved.... What we seek to do is find -each area - what type of fish and game management is most appropriate and provide that for the residents of Alaska.

[4:29:27 PM](#)

SENATOR SEEKINS asked his opinion on what role the department might play in providing access to natural resources for the people who own them.

[4:30:03 PM](#)

MR. CAMPBELL replied that the department would see a substantial shift because he believes in access and optimizing public

participation. Protection through limiting access leaves the natural resources for the people who live close to the resource or to those who are wealthy enough to afford extraordinary means of transportation.

[4:31:19 PM](#)

SENATOR SEEKINS said his opinion is that the level of trust between the department and people who buy hunting licenses is at an all-time low. He asked what he would do to restore that trust.

MR. CAMPBELL said he didn't know if that is true, but it doesn't matter in terms of what the department needs to do.

We need to reach out to all our public to, one - to be listening to them, to be talking to them to make sure they understand they are being heard.

He said that one of the courses that is generally not offered in wildlife or fisheries management school is customer relations and he thought that was an extremely important part of the department's job. He has begun to develop outreach to all the department's constituencies.

[4:34:11 PM](#)

SENATOR SEEKINS said a couple of years ago he looked at a couple of numbers. He noticed that 70,000 Alaskans picked up a moose tag and about 7,000 actually harvested a moose. Sweden harvested 100,000 moose in the same year. At the same time the numbers looked like Alaska was harvesting less than 3 percent for of harvestable surplus, the rest were dying of natural causes or predation. In that same year, 70 percent of the moose calves that were born were estimated to be dead before the time they were four weeks old. He asked if that was a reflection of management style and could he do anything about it.

MR. CAMPBELL replied that he had not seen those figures, but he would follow up on them.

[4:36:02 PM](#)

SENATOR STEDMAN asked how he thought biomass should be split between sport and commercial fishermen.

[4:36:41 PM](#)

MR. CAMPBELL replied that he would keep allocation issues with the Board of Fisheries as much as he could. He uses emergency order authority in two sets of circumstances. One is within the

framework of a fisheries management plan passed by the Board of Fisheries. There are times when some new information comes to the fore where if the board had had it at the time it made the fisheries management plan with the regulation, it would have done something different. He explained:

I have already talked with the Board of Fisheries and told them what my expectations are that in such cases, I expect to consult with them, but I do not normally expect to call them back into session to make that allocative decision.

He was actually in the process of making that kind of decision on Chinooks in Southeast.

[4:39:58 PM](#)

SENATOR STEDMAN asked if there isn't a large enough biomass to facilitate a commercial fishery, did he feel part of it should be allocated to sport fishermen.

MR. CAMPBELL replied that the first question is given the biomass that is there, is there any portion or any way to allocate that among the commercial fishery. He couldn't imagine a situation in which he would say not enough for commercial, so we'll give it all to sport.

SENATOR STEDMAN asked him what his views are on subsistence.

MR. CAMPBELL replied that the subsistence priority exists in both state and federal law. Alaska is governed by both laws under dual management and he finds there is substantial unnecessary duplication.

In some limited instances subsistence provisions have deprived other commercial and sport opportunity without providing any increase for subsistence users. He hoped to work constructively with federal authorities to look at both state and federal subsistence regulations to minimize duplication. He advised them that it is almost impossible to provide enforcement on many subsistence issues right now. He wanted to make sure that those decisions are based on sound science, not emotion.

[4:42:40 PM](#)

SENATOR STEDMAN said the state has some issues with the federal government, especially with the mean high tide to the three-mile limit. "It appears that on occasions they like to try to restrict or dictate or control out access to what some of us

feel is state jurisdiction." Excluding Glacier Bay, he asked what his opinion was.

MR. CAMPBELL replied that he strongly feels that the federal government's headland-to-headland interpretation of federal waters is wrong as a policy issue and as a matter of law. He believes that those are state waters under state control.

[4:44:21 PM](#)

SENATOR ELTON asked how he perceives his role in interacting with Washington, D.C. to protect the state. What assets and resources does he have to make sure that the state's interests are best protected as a resolution is crafted that applies to all coastal states.

MR. CAMPBELL replied that one of the major differences he was surprised to see in coming back to state service is the real expansion of the federal government in many issues. But he has been pleased how the administration has been able to work internally together on a number of issues - the Magnuson reauthorization of land trade issues, for instance. He wants to improve communications between the governor to all the people in the field.

I want all the folks in the field to understand where this governor wants to go and how he wants to get there and why. But I also want to make sure when the governor is doing something, he has heard the perspective from down in the field. The reason I bring that up is because it sometimes effects some of these decisions. So far, there has been nothing that's happened in Washington that I want to be involved in that I haven't felt I've had a full voice and access to.

[4:47:24 PM](#)

SENATOR SEEKINS moved to report Mr. Campbell's name to the full body for confirmation with the understanding that signing the report is no indication of support. There were no objections and it was so ordered.

[4:48:06 PM](#) At ease [4:50:02 PM](#)

HB 256-RUTH BURNETT SPORT FISH HATCHERY

CHAIR WAGONER announced HB 256 to be up for consideration.

REPRESENTATIVE RAMRAS, sponsor of HB 56, said it is a naming bill for the Fairbanks Sport fish hatchery and was well received by the folks in Fairbanks and the Interior delegation. Ruth Burnett who passed away from cancer a couple of years ago was a former city mayor and an aide to Senator Stevens. She was very committed to bettering her community and among other things she was involved in the dialogue about a hatchery in Fairbanks.

[4:51:51 PM](#)

SENATOR SEEKINS said Ruth Burnett was more like a family member to him and his family than anything else. He followed with a story about how she helped him start the "Young Life Program" in Fairbanks, an interdenominational high school age group that met for years in her home, and then moved on to meet in his house. He said:

Ruth was such an inspiration because in growing her family, she never forgot the rest of the young people in the community. As mayor she was a dynamic force in trying to put Fairbanks on a unified path....

REPRESENTATIVE RAMRAS said:

She is one of the people that define a community and she did that over decades. So, it's a great honor to her and the legacy of her family, as well. I second that emotion, Senator Seekins.

[4:57:27 PM](#)

SENATOR DYSON moved to report HB 256 from committee with individual recommendations and zero fiscal note. There were no objections and it was so ordered.

[4:57:54 PM](#)

SB 113-GULF OF ALASKA GROUND FISH FISHERY

CHAIR WAGONER announced SB 113 to be up again for consideration.

SENATOR SEEKINS moved to report the letter of intent and the memorandum of understanding (MOU) out of committee with SB 113. There were no objections and it was so ordered.

CHAIR WAGONER announced that the presentation by the Alaska Natural Gas Development Authority (ANGDA) would be the next order of business.

MR. HAROLD HEINZE, Executive Director, Alaska Natural Gas Development Authority (ANGDA), said he provided the committee with a power point presentation that he would highlight.

He said that Michael Baker completed a very important 150-page study for ANGDA and last week he distributed a 17-page summary of it to the legislature. He said it is a reference that is now available to the public electronically and contains size diagrams for both an 800-mile pipeline, which covers Prudhoe Bay to everywhere or a spur line of 300-miles, which is basically Delta to Anchorage and provides information for questions that people need to think about in considering the size of the project. Some of the questions are what is gained by going to a large project, what is the right size for Alaska and at what point do the reserves or the market not support a project.

He said the people tend to focus on gas going down the pipeline, but there is a huge amount of NGLs and hydrocarbon molecules other than methane on the North Slope that are valuable and drivers of other types of industry. The propane numbers vary from 50,000 to 100,000 barrels a day. Where it goes, where it's extracted, who captures it, what's done with it should be of policy concern to them. The full report provided technical evaluation of the alternatives to extracting the propane and ethane - capturing it and utilizing it - here in Alaska, but does not make any specific recommendations.

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The report describes a project that is a bullet pipeline that would run directly from the North Slope to the Cook Inlet area and carry gas and NGLs to meet the area's long-term needs. The project pencils very nicely and offers a perspective that is doable.

He felt that he could uphold ANGDA's position within the gas pipeline negotiations and make sure that the instate gas uses are treated properly.

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An application for an important project has an April 2006 federal deadline. But a filing of a lawsuit on a recent FERC ruling in the Court of Appeals causes him some consternation in terms of timelines. "We think it's very important that we understand an open season process here in Alaska and be prepared to move forward on it."

MR. HEINZE said a third timeline is the Cook Inlet gas supply and its demand imbalance is getting worse quickly.

Unless something is done in the near future that indicates the problem will get solved in the medium term, people are going to become quite discouraged and there are a lot of bad consequences.

The work we have done indicates that we need to have not only the commercial or the heating and power generation sectors there, but we need to have some industrial customers to share in paying the bill of bringing gas to the area whether it's through a bullet line or some direct line from the North Slope....

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CHAIR WAGONER said the people who are promoting the Port Authority line use its tax status as a promotion tool and asked what ANGDA's tax status would be compared to its tax status for building a bullet line.

MR. HEINZE replied that ANGDA is a part of the State of Alaska and enjoys its tax-free provisions. However, his financial advisors have realized that ANGDA can end up with a lower cost of service by being a utility that issues low-interest debt. The non-profit status would make income tax less of a concern.

Secondly, tax issues become very tricky if other parties are involved. Tax advice he has received indicates if ANGDA becomes involved with private taxable entities, it runs some risk of jeopardizing its tax status. So, his approach is as a utility using low interest debt, not concentrating too heavily on his tax status and believing that it is important that industrial customers would be part of the project and pay their share to make the project happen.

We think that is very important in terms of getting financing and we think it's quite impressive to get financing if we had, say, one or two industrial partners in the project itself.

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SENATOR ELTON asked what is a reasonable rate of return in percentages for a gas pipeline and its private partners?

MR. HEINZE replied as a gas transmission utility, ANGDA would be a regulated entity. Even though a partner like Enstar, for

instance, has a profit objective, it is also a regulated entity and its rate of return would be set by the RCA. It is probably a lower number than most people think in terms of oil and gas producers.

ANGDA has looked at smaller projects with more modest investments, and he believes they would generate a tremendous amount of benefit to the state. He hastened to add that they would not generate the level of state revenues that are associated with 4 to 6 BCF per day.

You just can't overcome those kinds of numbers. On the other hand in terms of economic benefits to Alaska, even a modest sized project is very very powerful. We've tended to focus on a more modest investment if I can use the words there with a much lower risk profile than \$20 billion or \$25 billion. I think that risk profile is relevant to the issues of what rate of return expectations people have and things like that.

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SENATOR ELTON asked how he would define a reasonable rate of return looking at competing proposals for a gas transportation system.

MR. HEINZE replied that there is no absolute measure. If the matter were in litigation, he presumed that any judge would look very strongly on the fact that some parties other than the producers were interested in doing the project as pretty powerful evidence.

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SENATOR ELTON said the gas pipeline component seems to be in the \$.50 to \$2.00 range. He asked how much the total transportation cost is assuming there is an LNG port someplace on the West Coast they would deliver to.

MR. HEINZE replied to get gas 800 miles from Prudhoe Bay to Valdez it would cost as low as \$1 including the conditioning cost to the North Slope. His work shows that the high end of that number even on smaller pipes that are less efficient in a tariff sense rises to about \$1.50. This is very encouraging. The producers have stated that the cost of delivering gas from the North Slope to Chicago, a large marketplace, is \$2.50.

If we can have that same gas at that same wellhead value available in Alaska for a cost of \$1.00 to

\$1.50, that gives us a \$1.00 to \$1.50 advantage over the marketplace price. That's good for the consumers; that's good for industry; that's good for a lot of people. The state realizes the same amount at the wellhead; it's just we get other benefits out of it.

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SENATOR ELTON responded that there is no possibility that the state can use instate production from the North Slope. He is trying to figure out how much it will cost to ship to get it to Valdez versus to getting it to the Midwest.

MR. HEINZE replied that it's 2,500 miles to Chicago and it's 800 miles to Valdez. It's that simple. He said the conditioning costs are about a quarter.

So, basically, you can deliver gas very easily for slightly over a buck to Valdez. At that point, then, you would have LNG plant costs and then, of course, tanker costs beyond that point.

When ANGDA looked at that, we looked at those numbers as being very competitive in total with the \$2.50 going to Chicago. If we were going to the same market in a shorter pipeline, liquefying and moving in tankers, our numbers indicated that it was about the same size.

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SENATOR STEDMAN asked if the return on equity has to be expanded or modified by the capital structure of the corporations ANGDA deals with.

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MR. HEINZE responded that generally pipelines are looked at as being financed 70 percent debt and 30 percent equity. The numbers would be affected by the amount of risk involved and other factors. The interest rate on the borrowing has to do with who the players are and what the circumstances are. ANGDA's brief look at it said if they are talking \$10 billion or \$20 billion the project financing that could be done, but the interest rate might be really high. In this case, the fact is that the federal government has provided 80 percent loan guarantees that is a tremendous advantage. Those kinds of factors definitely enter the considerations. The spur line he has focused on is modest and can be financed as a utility.

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SENATOR STEDMAN said there are other measurements besides return on equity like the return on capital and he asked if the return on equity is the main one.

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MR. HEINZE replied that this technical report was meant for slow digestion over a period of months. The way it evaluates things is on two bases. One is on an investor basis or return on investment; the other is the cost of service basis, the way a regulator would look at it. The report shows that the two answers come out the same. "Those things that are probably the best investment turn out to have the lowest cost of service." Selecting the right size pipe is going to be a good investment decision and it's going to lead to a good cost of service.

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SENATOR ELTON said he understands the advantages of instate use but wanted to know what volumes that involves. He was concerned that a smaller pipe reduces the amount of gas available to other markets.

MR. HEINZE referred to page 6 that has a dual pie chart. The project put forward in this scheme is based on 1 BCF per day to Cook Inlet and that meets the instate needs and provides for some level of export. It doesn't build a lot of new things in the state, but it achieves very good economies. The building of that project at \$2.5 billion to \$3 billion provides a stimulus that is very powerful in terms of the Alaskan economy and provides a lot of incentive for bringing gas to market. Probably its strongest point is that it does not require the total commitment of the Prudhoe Bay gas reserve. It requires the state's share and a majority of one owner's share.

SENATOR ELTON said he thought:

We greatly expand the benefits to the state if we provide not just for instate use, but also provide that we get some of the stranded gas to markets that are willing to pay for it and a smaller pipeline certainly reduces the amount of gas that you can get to other markets that are willing to pay for it.

MR. HEINZE replied that he is correct and this project isn't a project that will solve all things. He asked him to reflect on the fact that known reserves of 2 BCF per day is a lot. The

companies have said that 4.5 BCF requires a discovery of 15 TCF additional gas.

The concept of sizing here is - the simplest way I can express it to you is if it's somebody else's money and they want to spend \$20 billion to put in the biggest project they can conceive of, we probably ought to let them do it. The only risk we run is that we end up with a lower wellhead value. If we are going to be involved financially, I'm just going to submit to you I think you have to look at 'fiduciarially' the other side of the coin, which is what is the risk of that big project.

The other aspect of this and the reason we've studied this project based on instate actions is that it does not involve a foreign country, which we have no control of... and having control of our own destiny might become very important. In Cook Inlet - the situation there is very grave. We've seen the situation deteriorate even in the last year very rapidly. There is legitimate concern that over half the population of the state could face some level of energy crisis. And if we have 35 TCF of gas sitting on the North Slope, that's not going to go over well if we have to bring gas in from Indonesia.

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SENATOR ELTON referenced the Agrium component of the pie charts on page 6 and asked if the assumption is that North Slope gas would be available to it at the same price as other users that may be located in the Lower 48, for example, "And could Agrium continue on that basis?"

MR. HEINZE replied that the assumption is if the wellhead netback value at Prudhoe Bay is set by the more distant bigger markets outside of Alaska - in Chicago, for instance, it's 2,500 miles away and it is cheaper to come 800 miles to Cook Inlet.

There is some price differential delivered if you have the same wellhead value and we just make that assumption - that there would be some advantage to the consumers here in Alaska whether they be private users, home owners, industrial customers, whatever. There is no discount. The state would realize the same value at the wellhead; it's just we would be gaining

some advantage because we're closer to the source. That's all....

The other part of the chart that's important is to realize this is not green field construction. These are plants that exist that are fully depreciated, that are very well understood operationally and that with some modest price advantage over the world market, these plants may be very attractive for the companies that own them to continue to operate. And that's the only assumption that's made here.

[5:35:07 PM](#)

SENATOR ELTON said there is a much shorter transportation link between existing gas wells in Cook Inlet and Agrium right now and Agrium has said they can't compete for that gas with other people in the market.

MR. HEINZE explained that as Cook Inlet ran out of gas, the RCA allowed prices to rise to the world price level to attract exploration. It has resulted in people going out and looking for gas, but they have not found large quantities. They have found some.

As that gas becomes the dominant gas in the system, our prices have gone up 30 percent. Prices of gas will double in two years. It is predictable that in less than five years they will double under the scenario there. The spur line concept, the idea of hooking an efficient transportation system to the huge reserve on the North Slope simply drives prices back to about where they were a year or two ago and it preserves for the longer term whatever advantage there was in having lower-priced gas in Cook Inlet. It doesn't make it cheap, but it preserves at least some pricing advantage.

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CHAIR WAGONER thanked Mr. Heinze for his presentation.

MR. HEINZE said he intended to continue working with the legislature on the informational side of these issues.

[5:38:48 PM](#)

HJR 9am-URGE CONGRESS HONOR EXXON VALDEZ JUDGMENT

CHAIR THOMAS WAGONER announced HJR 9am to be up for consideration and passed the gavel to Senator Stedman because he has a potential conflict being one of the litigants involved in the Exxon Valdez litigation.

SUZANNE HANCOCK, staff to Representative LeDoux, sponsor, said that this resolution urges the U.S. Congress to respect the judicial process and asks it to not change any of the settlement terms. The litigants of the Exxon Valdez oil spill are still waiting for a resolution 16 years after it happened and 10 years after the original jury verdict.

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SENATOR ELTON moved to report HJR 9am from committee with individual recommendations and zero fiscal note. There were no objections and it was so ordered.

There being no further business to come before the committee, Chair Wagoner adjourned the meeting at [5:43:19 PM](#).