

SENATE FINANCE COMMITTEE
July 23, 2008
9:12 a.m.

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at [9:17:26 AM](#)

MEMBERS PRESENT

Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Kim Elton
Senator Joe Thomas
Senator Fred Dyson

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair

ALSO PRESENT

Senator Lyda Green; Senator Tom Wagoner; Leo von Scheben, Commissioner, Department of Transportation; Frank Richards, Deputy Commissioner of Highways & Public Facilities, Department of Transportation and Public Facilities; Karen Rehfeld, Director, Office of Management and Budget; Harold C. Heinze, Chief Executive Officer, Alaska Natural Gas Pipeline Authority; Randall Ruaro, Special Assistant, Office of the Governor

PRESENT VIA TELECONFERENCE

Senator Donny Olson

SUMMARY

SB 4001 "An Act making supplemental appropriations, capital appropriations, reappropriations, and other appropriations; making appropriations to capitalize a fund; and providing for an effective date."

SB 4001 was HEARD and HELD.

SB 4004 "An Act suspending the motor fuel tax; and providing for an effective date."

SB 4004 was HEARD and HELD.

#sb4001
SENATE BILL NO. 4001

"An Act making supplemental appropriations, capital appropriations, reappropriations, and other appropriations; making appropriations to capitalize a fund; and providing for an effective date."

[9:22:13 AM](#)

Department of Transportation and Public Facilities

LEO VON SCHEBEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION
read from prepared written testimony.

I am here today to present to you our initial \$129.9 million appropriation request to address Gas Pipeline Infrastructure needs.

During the recent Legislative hearings in Fairbanks, Deputy Commissioner Frank Richards presented a detailed overview on what we see is needed to improve our highways and bridges BEFORE the pipeline construction begins. That presentation identified \$2 Billion worth of needs to rehabilitate and upgrade the highways, bridges, airports and public facilities along the route from Prudhoe Bay to the Canadian border. The bill in front of you provides the initial allocation to address these large issues.

We bring this appropriation request to you now because we have a looming deadline to reach - completion of all infrastructure work BEFORE the start of the pipeline construction in 2015 or 2016. That's only 6 construction seasons away. We have a tremendous amount of work to do in a very short period of time. We must start immediately to prevent a significant challenge - that of having highway construction still underway when the pipeline work begins. Imagine pipeline construction having to work around and through road construction. Our goal is to prevent this from happening!

Alaska must get our highways and bridges and other infrastructure in good condition to support the large amount of freight, heavy pipe hauls, construction equipment, and large modules that will be transiting the network during construction. We have focused our attention on the state assets, but do realize that there are many others including ports, railroads, and docks that must also be addressed. Over the next few months we will be working with other infrastructure owners to catalog the statewide needs and present those to the Legislature in the next session.

Our bridges on the Alaska Highway are over 50 years old, some would consider them historic. Many of them are truss bridges that limit the loads that can use

them due to the height of the overhead truss. They are also load limited and cannot support the large loads that will pass over them during pipeline construction, especially the compressor modules that will be built and hauled overland to the numerous compressor stations along the pipeline. It is time to replace these bridges and construct new ones capable of handling these loads during construction and in the future.

You may ask "Why are we asking for General Funds to address these needs rather than relying on our Federal Highway Program"? The answer is two-fold:

1. Use of federal funds comes with an obligation to follow the FHWA prescribed processes. This means that Environmental work must be complete before Design work, which must be completed before we can start Right of Way work. This sequential requirement adds years of process to a typical project. A federal project now takes 7 years or more from inception to completion.
2. The Federal Highway program is in trouble. Congress is voting today to fill the \$8 billion hole in the highway trust fund for federal fiscal year 2009. Alaska's heavy reliance on federal highway funds means our ability to meet the state's transportation infrastructure needs is already severely challenged. We are being told to brace for a 30% reduction in funds this year unless Congress supplements the trust with today's vote. And the outlook for the next Re-authorization is not promising. Alaska will most likely not continue to receive our present allocation of \$6 for every \$1 we contribute to the trust. Emphasis on Green House Gas emissions and urban transit will shift funds away from Alaska with our small population.

Suffice it to say - We do not have the time or Federal funds to accomplish the immediate task ahead of us in the timeframe we must meet!

To meet this challenge, we must begin NOW. We need to get contracts let and get design work initiated. We need to locate and permit new hard rock and gravel material sites. And we need to put Alaskans, trained under the Workforce Development initiatives presented by Commissioner Bishop yesterday, to work to hone their newly acquired skills. Our infrastructure improvement program over the next few years will provide these

workers a continuum of work leading to the pipeline construction commencing in 2015.

I look forward to working with this committee as we move towards achieving the goal of rebuilding our infrastructure and having it ready to support, not hamper, the construction of OUR Natural Gas Pipeline. I cannot stress enough the importance of getting this work started immediately so we do not create a bottleneck of activity that impedes pipeline construction. There are only 6 construction seasons left.

[9:27:58 AM](#)

Co-Chair Stedman asked why funding requests for these projects were being made now when they could have been included in the previous 2008 capital budget in anticipation of the gasline. Commissioner Von Scheben explained that he had been behind on receiving information about all of the repairs necessary to the overall infrastructure of the state.

Co-Chair Stedman asked in what context the Senate Finance Committee should examine the request knowing that there are other projects around the state that are in need.

Commissioner von Scheben assured the committee that the other needs throughout the state would not be neglected.

[9:31:08 AM](#)

Senator Elton expressed concern that AGIA related capital spending would affect the schedule for other capital projects on the Statewide Transportation Improvement Program (STIP). Commissioner von Scheben answered that the Department of Transportation and Public Facilities (DOT) has worked with a \$1 billion capital budget for the last six years and can continue to do so if necessary. He acknowledged that there will be conflicts, but stressed that DOT is prepared to take them on. Senator Elton asked if DOT would continue to budget \$1 billion for capital projects despite the additional dollars allocated to AGIA projects. Commissioner von Scheben said that was correct. Senator Elton questioned why infrastructure needs on ports and railroads had yet to be assessed before the request for funding of the AGIA related infrastructure projects. Commissioner von Scheben said he would bring representatives from railroad, ports and harbors together with the department to discuss a plan of needs for the entire infrastructure system to present during the 2009 legislative session.

[9:35:48 AM](#)

Senator Elton stated that if that was the plan he would be more comfortable waiting to see the whole picture before allocating state funds. Commissioner von Scheben answered that the Dalton Highway is the beginning of these projects. He stressed that time was a factor.

[9:37:30 AM](#)

FRANK RICHARDS, DEPUTY COMMISSIONER OF HIGHWAYS & PUBLIC FACILITIES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, interjected regarding Senator Elton's questions about projects on the STIP. He pointed out that some of the projects they propose will relieve pressure on the STIP in the long term. He explained these projects were designed using STIP dollars, but had been on hold waiting for construction funds. Using general funds will provide relief for federal STIP funding. Having these projects move forward quickly will lock in construction costs now, as opposed to unknown future funding.

Senator Huggins asked if the needs of the STIP had been compared to the logistical demands of the gasline and if so do those needs support each other. He stated that if a comparison has yet to be made he would like to see it done. Deputy Richards answered that he had looked at the overall highway needs and looked within the STIP to see if there were projects envisioned that would meet those needs. He cautioned that using federal STIP dollars to meet gasline needs would be unsuccessful. The general funds requested would be less limited in meeting AGIA specific transportation needs.

[9:41:22 AM](#)

Deputy Richards stated that general fund support of these tasks is useful because it takes it out of the federal process. He pointed out that STIP projects are federal projects and not state projects. He said the next step would be meeting with partners and determining their needs. He stressed that STIP was limited and posed challenges in meeting the needs of AGIA specific transportation needs.

[9:44:10 AM](#)

Senator Huggins remarked that funding was being requested for a phase of a non-existent plan. He asked for a more specific plan for repairing the Dalton Highway.

Senator Thomas asked if the Dalton, Richardson and, Elliott Highway repairs were the most critical to beginning the pipeline. Commissioner Von Scheben answered that there were many roads that would need repair; the Dalton is the first priority.

[9:47:45 AM](#)

Senator Dyson asked how do we decide which project is more important. Senator Dyson stated that an objective criteria is necessary when deciding how to distribute monies.

[9:49:52 AM](#)

Co-Chair Stedman responded that he did not know the layout of the next capital budget and continued that one of the main concerns this fiscal year has been maintenance dollars. He asked if there was a need for DOT to have supplemental money for maintenance. Commissioner Von Scheben answered that there is always a need for more money for maintenance and DOT is given a budget each fiscal year and that is what they work with.

[9:52:53 AM](#)

Co-Chair Stedman asked how a statewide view can be taken on allocating state capital. Commissioner Von Scheben responded that the Dalton was a project that is very viable and therefore worthy of funding.

Co-Chair Stedman stated he was concerned that there was not forward momentum with existing 20-30 year transportation system projects. He voiced concern that these projects would fall in the shadow of AGIA projects and wondered what DOT was doing to ensure that these projects are completed. Commissioner von Scheben replied that he would like to see all of the DOT projects completed and that one of the main obstacles is funding.

[9:55:38 AM](#)

Senator Elton asked for an assurance from the department that the Dalton Highway be open to the general public during construction. Commissioner Von Scheben offered assurances. Senator Elton asked if civilian cars would share the highway with construction vehicles.

[9:57:29 AM](#)

Commissioner von Scheben discussed the need for a highway system that would provide a safe environment for the traveling public and construction vehicles on the Dalton Highway. Construction would occur in the winter, which may limit the number traveling public.

Senator Elton asked the chair to consider a past request from the governor to meet with her with to discuss the committee priorities on spending. He suggested it would be

helpful for DOT to submit their spending priorities to the committee.

Senator Olson asked if the DOT had been in contact with people in the North Slope Borough. Commissioner von Scheben answered that there had been discussions about airport work in that area, but there had been no discussion on the Dalton Highway at this time. Senator Olson asked that DOT keep the mayor of North Slope Borough and his planning division involved in the process of this project.

Co-Chair Stedman asked why the committee would allocate \$130 million for the Dalton project after the governor vetoed a DOT request for \$141 million in the last capital budget. Commissioner von Scheben said that the governor was on board with this particular request.

***KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, stated that several of the Governor's budget veto's involved plans with incomplete design work. She qualified that design work on this project is complete and being resubmitted to the committee for funding at this time.

Senator Huggins stated that the people of Alaska will support infrastructure development for the pipeline, but not at the expense of fixing the road that leads to their house. Commissioner von Scheben answered that DOT would not be hindered in performing its regular duties.

[10:03:46 AM](#)

Co-Chair Stedman noted that in this instance general funds were being requested in order to avoid the federal fund matching requirements, to speed up the process and avoid additional costs. He expressed concern that in the past the legislature had met with more opposition than the administration when requesting money from the general fund. He declared that the imbalance did not go unnoticed.

[10:05:06 AM](#)

Deputy Richards discussed the Gas Pipeline Infrastructure Preparation or Project 7 (copy on File). He also discussed the Preconstruction- Dalton, Elliot, Richardson, Alaska and Haines Highways or Project 8 (copy on File).

[10:09:21 AM](#)

Co-Chair Stedman asked Commissioner von Scheben for clarification regarding spending out of house verses in house spending. Commissioner von Scheben surmised it would be about half and half.

Senator Elton asked Commissioner von Scheben to discuss how Haines was chosen over Skagway as the point of entry in this design. Commissioner von Scheben replied that there had not been a specific reason he knew of for choosing Haines over Skagway. Deputy Richards added that the constructors involved had decided that Haines would be the preferred point of entry. Senator Elton asked if the decision to choose Haines had cost the state money.

Co-Chair Stedman cited a study done several years ago on several ports to examine access issues for the pipeline. He recalled the study favoring Haines.

Senator Huggins wanted to know where Deputy Richards was getting his information on the Haines preference issue. Deputy Richards informed that through the years he'd had discussions with British Petroleum (BP) and ConocoPhillips, and more recently with the Denali Project and, with TransCanada.

Co-Chair Stedman commented on the challenge the high price of oil will be on locking in reasonable prices for paving contracts or any work that uses a lot of fuel. He wondered if DOT was working on a clause in their future contracts to keep prices reasonable.

[10:16:13 AM](#)

Commissioner von Scheben answered that DOT was working on that issue, but they were having a hard time sorting through old projects that now need coverage because of price escalation.

Co-Chair Stedman spoke of a plan in Florida in which a clause is included in the business contract to cushion fluctuating costs over the projects time. He suggested DOT solve the problem in a similar fashion.

Deputy Richards talked about allowing an asphalt escalator in the federal highway program standards and specifications within the last year. He stated other states in the nation have an escalator clause in place. Alaska working with the Associated General Contractors(AGC) specifically on highways, put the clause into play. He would like to expand the clause to the federal aviation programs and to use general funds to work with contractors that are experiencing cost overrides. He stated he did not want to put his partners in jeopardy. He stressed that in the past, price quotes were good for 60-90 days, but that this is not the case anymore. He felt that the contractors should have help in bearing the burden of possible cost escalations.

Senator Huggins recalled that money was available in past budget for bridges and wondered if there was redundancy in

the request. Deputy Richards answered that there was \$20 million dollars available through the GO bond package, which would only cover a portion of one of the long-span bridges. He did not envision using the \$20 million GO funds for the long-span bridges.

AT EASE: [10:20:22 AM](#)
RECONVENED: [10:29:43 AM](#)

Deputy Richards referred to the Dalton Highway Project Status (Copy on File). He noted that federal and legislative support was included. He stated that he would provide similar information on the Richardson and Alaska highways and other routes across the state.

[10:32:25 AM](#)

Commissioner Von Scheben said there was nothing else to present at this time. Co-Chair Stedman commented that gasline issues can be addressed as they arise in future years. He emphasized that the entire state's needs, outside of gasline issues, would also need to be addressed in the 2009 session.

Co-Chair Stedman asked if the construction cost request for the Chilkat River Bridge could wait to be included in the 2009 capital budget. Mr. Richards said that item was brought forward because the project could be done immediately with current money in hand.

[10:34:54 AM](#)

Senator Elton thought moving ahead with the funding request without an assessment of port needs was unwise at this time. He asserted that it would be better to know the total need of the AGIA request rather than the highway part only. Commissioner Von Scheben commented that discussions would be on-going. He opined that the Dalton Highway was a good starting place. He felt the Dalton will always be the first priority because it is the only road out of Fairbanks that leads north.

Co-Chair Stedman asked how much has been spent in the last three years for maintenance on the Dalton Highway. Commissioner Von Scheben said about \$27 million. Co-Chair Stedman inquired about capital funds already available for the Dalton Highway. Mr. Richard granted that there had been money available for heavy maintenance, to replace lost materials to address drainage problems and to raise the grade to deal with snow drift. Co-Chair Stedman thought a full layout of the project should have been requested last year.

[10:38:32 AM](#)

Senator Elton asked if there was money for the Haines Highway in the budget that had been vetoed in the past 3 years. Ms. Rehfeld did not recall anything specific to the Haines Highway.

Senator Elton brought up the inflation costs of highway projects. He wondered what inflation factor was used to project expenses in the next five years. Commissioner Von Scheben said 4 percent. Senator Elton asked what the inflation factor was over the last five years. Commissioner Von Scheben offered to provide that information.

Co-Chair Stedman requested further information on historic costs and inflation factors. Commissioner Von Scheben explained that a cost index study was recently finished and he offered to provide it to the committee. He invited the committee to participate in a statewide infrastructure needs forum.

[10:44:56 AM](#)

HAROLD C. HEINZE, CHIEF EXECUTIVE OFFICER, ALASKA NATURAL GAS PIPELINE DEVELOPMENT AUTHORITY (ANGDA), testified via teleconference. He read a prepared statement to the committee:

The ANGDA gas spur line project links Delta Junction to the Cook Inlet area through Glennallen. It is integral to the delivery of North Slope gas for in-state utility use from either the AGIA licensee TransCanada Alaska or the producer sponsored Denali pipeline projects.

Strong legislative support and funding has allowed ANGDA to: (1) acquire a conditional state right-of-way between Palmer & Glennallen, (2) conduct field wetland delineation between Beluga & Delta Junction, and (3) publish a myriad of focused studies on in-state gas issues.

ANGDA's strategy has focused on an aggressive time line of activities to assure that the in-state gas needs will be understood and that local utilities will have the best opportunity to participate in the FERC open season of the "big pipeline". In the first quarter of 2009, ANGDA will have the information to conduct a negotiated in-state open season to allow early interaction with the design and contract terms of either of the "big pipeline" project proposals. Alaska's gas needs will only represent 5% of the bigger project and the local utilities are greatly advantaged by being considered up-front as one of the anchor tenants.

With the passage of AGIA the competitive pressure will accelerate the pace of preparations for the FERC open season. Legislative action now on the ANGDA appropriation request of \$25 million will maintain a leadership position to get North Slope gas to Alaskans under the best fiscal terms and under the most favorable timeline.

The requested \$25 million appropriation funds contractor efforts to complete the pre-build preparations related to:

- Route survey and options for rights-of-way acquisition
- Design of access roads & field preparation
- Preliminary pipeline and facility design
- Project management to include a finalized Project Execution Plan
- Logistics planning to include preparation of pipe yards & port improvements
- Materials specifications, materials take-off list, and options on long-lead items
- Finalization of financing and bonding for the project

[10:48:35 AM](#)

Mr. Heinze continued regarding Past ANGDA funding:

Past ANGDA funding includes:

Total operating budget expenditures of \$1.6 million total over 5 years

Total capital appropriations of \$11.5 million (includes \$4 million just available)

With \$4.5 million capital appropriation spent or committed at this time

Remaining \$7.0 million capital appropriation is authorized, but not committed at this time is planned for contracting over the next year:

- TAPS proximity design
- Feasibility of high-density plastic pipe as an interim link between Delta Junction and Fairbanks
- Recalibration of cost estimates and project schedule
- LDIR data acquisition

- Preparation of spur line project EIS
- Identification of & engagement with value added industrial companies
- Gas purchase agreements
- Contract and bonding documents for aggregation of utility gas needs
- Local gas take-off point design and preliminary NGL "straddle plant" designs
- Joint venture partnership documents, initial financing plan, request for Certificate of Necessity (demonstrate fit, willing, and able), and letter agreement with shippers
- Design of feeder pipelines from Gubik, Nenana, Point Thomson, Yukon Flats, and Copper River basins
- Propane Distribution Project - Propane purchase on North Slope for "pilot" project & tank rental
- Public outreach

[10:50:19 AM](#)

Mr. Heinze addressed the differences between the need of the plan as it stands now compared to April 2008. He related that at the time of the 2008 legislative session the full implications of the TransCanada proposal were not wholly understood. He also pointed out that only recently had the timeline and scheduling needs of the Denali Pipeline been clarified. He stated that the timeline is aggressive.

[10:52:07 AM](#)

Mr. Heinze commented on the question as to what happens if AGIA is not approved. He pointed out the advantages of AGIA in terms of in state use. He discussed the ramifications of a funding delay. He addressed the construction of a spur line as a pre-build.

Mr. Heinze said it is his perception that the approval of AGIA will set up a competition to get to an open season. The state operates under procurement rules and it is important to be in a strong position in 2009.

[10:55:40 AM](#)

Co-Chair Stedman asked what the number could be if the funding were scaled back. Mr. Heinze said \$50 million in order to retain two key contracts. He spoke of timing advantages.

[10:56:59 AM](#)

Senator Elton noted a \$25 million request for funds. He recalled the governor's conference with ENSTAR where there was no financial request from the state. He questioned why the state should fund ANGDA.

Mr. Heinze explained that the funding would be for a spur line, not a bullet line. He maintained that the spur line between Cook Inlet and Delta Basin should be built first, and then on an interim basis, the one to Fairbanks. He contrasted that plan with ENSTAR's. The monetary request from ANGDA is in order to consider building the spur line off of the big pipeline. He termed it an appropriate expenditure.

[11:02:19 AM](#)

Senator Elton continued to question the logic of having a spur line. Mr. Heinze suggested further conversations.

Senator Thomas noted a problem with competition due to having so many projects. There is a problem of not moving projects forward because of a lack of planning and design. He inquired what would happen if ANGDA's project does not go forward. Mr. Heinze said he did not intend to preclude any other options. The focus is on a spur line with the hope of being prepared to participate in an open season. He commented on possibilities with the North Slope gas. He confirmed that there are many issues on the table. The key to instate gas is to be prepared for open season because ANGDA is only 5 percent of the total cost of the pipeline proposals.

[11:11:40 AM](#)

Senator Thomas summarized that, regardless of what happens with the spur line, the state may want to go ahead with this project. Mr. Heinze thought the spur line would cost between \$1.5 billion to \$1 billion. He admitted that the conditions and the commitments to make the pipeline work were tricky. He made a case for helping Fairbanks by building the spur line and then linking with a larger pipeline at a later date resulting in cost savings.

Mr. Heinze surmised that the best training for future "big pipeline" workers would be first working on a spur line.

[11:15:08 AM](#)

Senator Huggins recalled a Senate resolution to promote in state gas. He asked if moving Cook Inlet gas north had a high probability in 2013, 2014, and 2015. Mr. Heinze believed there was a very high probability of that happening. Senator Huggins requested a number from 1-10. Mr. Heinze said "eight". He stated that money would need to

be spent and work would need to be done in order to move gas north to Cook Inlet.

Senator Huggins asked about the plastic pipe from Delta Junction to Fairbanks. Mr. Heinze detailed the specifics and benefits of high density plastic pipe.

Senator Huggins believed that in state gas would be a reality within six years. Mr. Heinze said the focus is on a spur line connecting to a larger pipeline. He detailed several options.

[11:21:51 AM](#)

Ms. Rehfeld offered to provide requested material pertaining to the macro concerns of the committee.

Senator Elton requested information about the Governor's priorities regarding appropriation requests.

SB 4001 was heard and HELD in Committee for further consideration.

AT-EASE: [11:24:39 AM](#)

RECONVENE: [11:29:18 AM](#)

#sb4004

SENATE BILL NO. 4004

"An Act suspending the motor fuel tax; and providing for an effective date."

RANDALL RUARO, SPECIAL ASSISTANT, OFFICE OF THE GOVERNOR stated that the main benefits of the suspension of the state's motor fuel tax apply to the general public and the fishing industry. They are also a part of a tool box at the federal level to provide relief to commercial fishermen. He mentioned benefits to regional air carriers. He spoke of communities losing air carrier service due to gas taxes. He specifically sited the community of Kake, Alaska. He stated that the suspension would provide relief to the trucking and barging industry as well.

[11:33:56 AM](#)

Co-Chair Stedman observed that the suspension would be from August 1st 2008 to July 31st 2009. He asked for data on who holds fishing permits in state and where they were held out of state. He wondered if non Alaskans were fueling up at the Dutch Harbor port. He asked if the majority of marine vehicles fueling up at Dutch Harbor were non Alaskan owned. He felt that Dutch Harbor was the dominant port for marine fuel. Mr. Ruaro stated that he would provide that information as soon as he could.

Co-Chair Stedman clarified that the proposed bill if enacted would repeal the marine fuel tax for anyone buying marine fuel. Mr. Ruaro answered that it suspends the tax for a year and applies on a statewide basis to all payers of the tax.

[11:35:43 AM](#)

Co-Chair Stedman asked the administration's plan to back fill the \$36.7 million. Mr. Ruaro said there was no formal plan at this time. The assumption is that there would be that amount less general funds.

Senator Thomas asked if the bill had been broken down by what the motor fuels do in specific situations. He stated that more clarity was needed between heating fuel and the fuel that powers vehicles.

Senator Huggins asked how many vehicles in the state fleet were sport utility vehicles (SUVs). He asked how the state could reduce overall consumption and suggested that Alaska should set the example for the country.

Senator Huggins voiced his concerns maintaining a robust maintenance fund for highways given the tax suspension. He also wondered about re-imposing the tax after suspension.

Co-Chair Stedman asked for a geographical distribution of the tax cut. Mr. Ruaro said he would work on that.

SB 4004 was heard and HELD in Committee for further consideration.

AT EASE: [11:43:03 AM](#)

RECONVENED: [11:43:28 AM](#)

#

ADJOURNMENT

The meeting was adjourned at 11:44 AM.