

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ENERGY

February 17, 2009

3:03 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Charisse Millett, Co-Chair
Representative Nancy Dahlstrom
Representative Kyle Johansen
Representative Jay Ramras
Representative Pete Petersen
Representative Chris Tuck

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

BARLEY FUEL PROJECT

- HEARD

HOUSE BILL NO. 44

"An Act relating to investments applicable to energy; authorizing the Alaska Permanent Fund Corporation to make in-state energy project investments; and authorizing certain public corporations to issue bonds for energy projects."

- MOVED CSHB 44(ENE) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 44

SHORT TITLE: ENERGY BONDS/INVESTMENTS

SPONSOR(S): REPRESENTATIVE(S) CHENAULT, WILSON

01/20/09	(H)	PREFILE RELEASED 1/9/09
01/20/09	(H)	READ THE FIRST TIME - REFERRALS
01/20/09	(H)	ENE, FIN
02/17/09	(H)	ENE AT 3:00 PM BARNES 124

WITNESS REGISTER

BRYCE WRIGLEY, President
Delta Chapter

Alaska Farm Bureau
Delta Junction, Alaska

POSITION STATEMENT: Gave a presentation on the Barley Fuel Project.

REPRESENTATIVE CHENAULT
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Spoke as the sponsor of HB 44.

HAROLD HEINZE
Chief Executive Officer
Alaska Natural Gas Development Authority (ANGDA)
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 44.

LAURA ACHEE, Director of Communications
Alaska Permanent Fund Corporation (APFC)
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 44.

JERRY BURNETT, Deputy Commissioner
Treasury Division
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 44.

PAUL FUHS
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 44.

ACTION NARRATIVE

[3:03:45 PM](#)

CO-CHAIR CHARISSE MILLETT called the House Special Committee on Energy meeting to order at 3:03 p.m. Present at the call to order were Representatives Johansen, Tuck, Dahlstrom, Edgmon, and Millett. Representatives Petersen and Ramras arrived as the meeting was in progress.

Barley Fuel Project

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CO-CHAIR MILLETT announced that the first order of business would be a presentation on the Barley Fuel Project.

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BRYCE WRIGLEY, President, Delta Chapter, Alaska Farm Bureau, and a barley farmer in Delta, informed the committee that the U.S., with its abundant natural resources, is not as receptive as Europe to alternative energy sources such as barley. He noted that barley and other grains have been used as a source of heat in Europe for many years and expressed the need to review information and lessons learned from other countries. Barley is a resource that can be easily grown in Alaska; one bushel of barley has the equivalent Btus as 2.8 gallons of fuel oil. For the purpose of this report, he estimated the cost of barley at \$5.52 per bushel, compared with \$8.29 for 2.8 gallons of fuel oil. He further compared 393,000 Btus per bushel of barley to 142,000 Btus per gallon of oil at an 85 percent efficiency rate for both fuels; the monthly fuel consumption to heat a 1,500 square foot home with 100 gallons of fuel oil cost \$296 and with the equivalent 0.6 ton of barley cost \$138. Further benefits of heating with barley fuel include: it is the most renewable resource that can be grown in Alaska; it has a one year carbon cycle versus one hundred years for wood and forty million years for oil; it has much lower particulate levels than wood; it is not a hazardous substance and can be shipped as a commodity to villages and is safer to store; when agricultural products are sold agricultural receipts turn over up to seven times in a community, as opposed to oil purchases that turn over twice before leaving the state; and the reduction of fuel oil consumption reduces import needs. Mr. Wrigley said production capabilities are the limiting factor to grain production; in fact, last year 4,000 acres were planted to supply the current market, but within two years 18,000 acres could be planted to meet a larger market. Further growth is possible due to the available acreage coming out of the Conservation Reserve Program (CRP) for a total of 50,000 acres by 2015. Two million acres of farmland is lost each year in the U.S. to urban encroachment; nowhere else in the country is there the opportunity to bring land back into production. He estimated that between 8.9 million and 18.5 million acres have been identified with potential for agricultural production in Alaska. Mr. Wrigley recalled that the original state agricultural plan called for 500,000 acres to be in production by the early 1990s; however, that goal was not reached because markets did not develop as quickly as production. The potential for grain for fuel production is that each acre will produce about 1 ton or 40

bushels; therefore, 25,000 acres will grow enough barley to heat about 5,000 homes and 500,000 acres will grow enough for 100,000 homes.

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MR. WRIGLEY turned to the subject of bio-diesel and pointed out growing short season varieties of canola is gaining interest for the production of bio-diesel and biodegradable hydraulic oil; in fact, one farm in Delta used canola oil for its farm equipment. Canola oil production, including food grade canola oil, requires a small processing plant and currently a feasibility study is being completed. Mr. Wrigley explained that Alaskan farmers have been working for years to create a sustainable agriculture industry. The original goals of the agriculture program remain important and valid; moreover, in one generation, Alaskan agriculture has accomplished what took one hundred and fifty years Outside. He recommended that barley and other farm products are included in the state energy plan and the Heating Assistance Program (AKHAP). Furthermore, the state should consider assisting residents to transition from polluting wood stoves to more efficient furnaces burning barley and other bio-fuels produced on Alaska farms. He assured the committee that using barley for fuel is ethical because the in-state demand for livestock feed is currently met from the production of barley on about 3,000 acres. To encourage a new market and increase production will actually stabilize the livestock industry and encourage additional investment in livestock. There is currently enough barley production to meet feeding and burning needs; however, the goal is to increase both the market and production together. Finally, Mr. Wrigley provided a presentation regarding how barley becomes fuel and reviewed the farming process.

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REPRESENTATIVE DAHLSTROM asked whether barley has to be totally dry before burning.

MR. WRIGLEY answered that it has to be dry to store for feed or fuel. In further response, he said that he burns barley in a pellet stove designed to burn pellets or corn. In response to Representative Dahlstrom, he said that canola is an oil seed and its oil can be burned at warm temperatures.

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MR. WRIGLEY, in response to Representative Petersen, said that there are currently only about seven to eight farmers growing barley because of the small market. In further response, he said that the CRP program was initially a 10-year program and has been renewed since 1987.

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REPRESENTATIVE PETERSEN asked whether it is more efficient to burn barley or convert it into ethanol.

MR. WRIGLEY acknowledged barley can be converted into ethanol; however, the advantage is to use barley directly as a fuel, whereas converting to ethanol requires further processing.

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REPRESENTATIVE PETERSEN asked whether barley production results in byproducts such as straw.

MR. WRIGLEY answered that most of the straw is currently used for pet bedding, but if production is increased there are other possible uses and markets.

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REPRESENTATIVE PETERSEN further asked whether it would be advantageous to have a licensed grain elevator in the Delta region.

MR. WRIGLEY recalled the Delta farmers and producers have discussed the aforementioned; in fact, last winter when there was a surplus of barley that could have been sold in the Lower 48, the sale was prevented because there was no way to inspect the barley before shipping. However, he said he was unsure if the farmers want to explore an export market at this time. He said, "Let's supply the in-state demand and let's create in-state markets as a renewable resource before we look at shipping it out."

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REPRESENTATIVE JOHANSEN asked whether the point of burning barley is to supplant the use of fossil fuels.

MR. WRIGLEY said yes. His recommendation is to supplant the use of fossil fuels and any other fuel that is more polluting or expensive.

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REPRESENTATIVE JOHANSEN inquired as to how much fossil fuel is burned during the production of barley.

MR. WRIGLEY explained during the processing of ethanol there is a tremendous amount of energy used for the generation of heat which is not part of barley production; the barley being burned requires no additional effort and can be used either for feed or fuel. The [fossil] fuel used in the production of barley is a ratio of 6:1.

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REPRESENTATIVE JOHANSEN surmised that barley is mainly being used for livestock feed and asked whether marketing barley for fuel will impact the price of feed.

MR. WRIGLEY observed that Alaska a closed market due to the price of transportation. It is not feasible to ship out barley, thus the factors to consider are what can be produced and consumed in the state. Three thousand acres are in use to produce sufficient feed for livestock and any additional production becomes surplus; the idea is to increase the market and production at the same time. Furthermore, an increase [in the production of barley] would encourage the livestock market as a 15 percent surplus is needed to increase the production of livestock.

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MR. WRIGLEY, in response to Representative Tuck, said there are a number of options for furnaces. In addition to radiant heat stoves there are barley boilers that range up to 250,000 Btus for home and commercial use. Burners can also fit into existing heat transfer systems and substitute for fuel oil or wood.

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REPRESENTATIVE TUCK asked about the generation of electricity from barley fuel.

MR. WRIGLEY stated that barley can be used to generate electricity with a solid bio-mass boiler; in addition, barley can be safely shipped to villages, avoiding the environmental risks associated with the transportation of toxic material.

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REPRESENTATIVE PETERSEN inquired as to the number of jobs that may be created with an increase in barley production.

MR. WRIGLEY offered there would be new jobs tied directly to agriculture, and jobs created outside of agriculture in the retail process of packaging and shipping.

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REPRESENTATIVE TUCK asked for the weight of a bushel of barley.

MR. WRIGLEY said 48 to 50 pounds.

[3:36:10 PM](#)

HB 44-ENERGY BONDS/INVESTMENTS

[3:36:22 PM](#)

CO-CHAIR MILLETT announced that the final order of business would be HOUSE BILL NO. 44, "An Act relating to investments applicable to energy; authorizing the Alaska Permanent Fund Corporation to make in-state energy project investments; and authorizing certain public corporations to issue bonds for energy projects."

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REPRESENTATIVE CHENAULT, Alaska State Legislature, remarked:

House Bill 44 was introduced as an effort to address the state's energy needs; especially for weatherization and energy efficiency programs and also to provide an impetus for in-state gas line. House Bill 44 preauthorizes the Alaska Housing Finance Corporation and the Alaska Natural Gas Development Authority to issue bonds for energy related programs and projects. The bill also gives the legislature's approval for the Permanent Fund Corporation to invest up to \$1 billion for in-state gas projects. Although

the legislature has authorized a number of these projects either through the Alaska Housing Finance Corporation and has made appropriation to the Alaska Natural Gas Development Authority, I believe now is the time to progress these needs to a higher level. In particular, the state's gas needs can't wait.

REPRESENTATIVE Chenault opined all Alaskans would like to see gas produced from the North Slope by the proposed [construction of a gas pipeline by the Alaska Gasline Inducement Act (AGIA) plan or by Denali-The Alaska Gas Pipeline] projects; however, the completion dates are around 2020 and there is still no guarantee that those projects will move forward. He pointed out that Fairbanks, Mat-Su, and Cook Inlet will require new supplies of gas or alternate energy in the near future. Also, processing liquids will take care of some of the needs in rural Alaska. Representative Chenault stated his preference for a private corporation to step up and build a gas line and said this legislation simply allows the state to get involved in a project that brings energy to Alaskans for in-state use.

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REPRESENTATIVE DAHLSTROM moved to adopt CSHB 44, Version 26-LS0231\R, Kane, 2/16/09, as the working document. There being no objection, Version R was adopted.

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REPRESENTATIVE RAMRAS recalled the Alaska Natural Gas Development Authority (ANGDA) has a plan to build [a pipeline] to Glennallen that will eventually connect with a "large pipe." Further, ANGDA plans to take plastic pipe to the turbines in Glennallen, Delta, and North Pole, and change the feedstock for Golden Valley Electric Association (GVEA) from diesel to natural gas. He remarked:

Frankly, ANGDA is very cavalier in suggesting that if some other private sector entity ... doesn't come forward then they'll just keep on building north. But they're pretty casual, throwing around three or four billion dollars ...

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REPRESENTATIVE CHENAULT observed it is unclear what any of the proposals will look like in a year or so, after the logistics

are worked out. He stressed that the proposed legislation allows some of the issues to be placed on the table for discussion; for example, the governor's proposal. Legislators are well aware of the gas needs in the communities they represent; in fact, this winter the Cook Inlet region reached its maximum limits for [the supply of energy] and this situation could impact the surrounding areas and Anchorage. Representative Chenault acknowledged that the bill may not be the answer to the problem, but will begin movement to spur a pipeline; moreover, the intent is for all the options to be available so that if no private entity comes forward there is a backup plan.

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REPRESENTATIVE RAMRAS asked whether Representative Chenault believes that a quasi-state entity, competing against a private sector entity, would scare off the private sector entity.

REPRESENTATIVE CHENAULT replied no. He expressed his belief that if a private corporation deems a profitable project, then it will be moved forward and the state should assist.

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REPRESENTATIVE PETERSEN asked whether the bill's sponsor consulted the Alaska Permanent Fund Corporation (APFC) Board of Directors and if the bill meets the corporation's requirement to return the maximum amount from investments.

REPRESENTATIVE CHENAULT stressed that the proposed legislation is suggestive to the APFC, which has prudent investment rules in statute that it must follow.

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REPRESENTATIVE CHENAULT, in response to Representative Tuck, deferred questions about the required rate of return on investments to the APFC board.

REPRESENTATIVE TUCK then asked for the expected rate of return for the projects referred to in the proposed legislation.

REPRESENTATIVE CHENAULT said that information is unknown until the bond package or other [financing] instrument is available.

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HAROLD HEINZE, Chief Executive Officer, Alaska Natural Gas Development Authority (ANGDA), informed the committee ANGDA supports HB 44. Firstly, he said the general idea of the bill and the use of public corporations of the state to help advance energy projects is a wise advocacy by the legislature as it builds on the strength of Alaska, while focusing the individual project and financial decisions at the level of public boards that have a strong fiduciary responsibility. This is the time for the state to maximize the leverage of cash through bonding to advance the infrastructure in the state. He pointed out the state's strong credit position even in a downturned economy; in fact, two important past successes in financing Alaska energy projects are the state's involvement in financing the Bradley Lake Hydroelectric Project and the Anchorage Municipal Light & Power's purchase of a one-third interest in the Beluga gas field. Furthermore, as North Slope gas reaches the market, additional opportunities will arise. Mr. Heinze provided a summary of ANGDA's statutory bonding provisions and the broad purposes of the authority. He then addressed ANGDA bonding opportunities such as: lowering the tariff to consumers by providing lower cost financing from the public side of a public private partnership; reducing risk by providing a bridge between pre-construction/construction phase financing and the operating phase financial picture; and the opportunity for low-interest bonds to purchase gas or to commit to shipping commitments that will result in long-term, stable, and discounted prices to consumers.

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MR. HEINZE listed the following specific ANGDA bonding opportunities in 2009 and 2010: debt portion of any in-state gas pipeline project in support of a private sector pipeline company partner; utility shipping commitments during an "open season" developed through the "gas supply co-op;" and the purchase of in-ground gas that could be available on the North Slope, in the Copper River Valley basin, the Interior basins, or in Cook Inlet. He then presented other bonding opportunities for state public corporations: Alaska Industrial Development & Export Authority (AIDEA) financing for in-state propane facility and delivery systems; Fairbanks Natural Gas proposed liquefied natural gas (LNG) facility at Prudhoe Bay; pipe and logistical systems and storage financed with Alaska Railroad bonds; and purchasing bonds or debt support by the Alaska Permanent Fund Corporation. Mr. Heinze re-stated ANGDA's support for the passage of HB 44.

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MR. HEINZE, in response to Representative Ramras, stated that ANGDA has no plans for discussions with ENSTAR Natural Gas Company, except for his presence at the upcoming Senate Resources Standing Committee hearing to explore in-state gas issues.

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REPRESENTATIVE RAMRAS inquired as to what the bonds would be for if issued "right now."

MR. HEINZE explained ANGDA has not yet developed a specific bonding proposal. However, one of three possibilities would be a \$250 million bond to cover a portion of an in-state spur line and a smaller portion of a line to the North Slope. Either of these possibilities would demonstrate state support to a private sector pipeline company. In addition, it would provide an opportunity for a state public corporation to be part of the development of benefits for Alaskan consumers and utilities. He opined the utility shipper's commitment during open season may be billions of dollars, and a \$250 million bond signals the state's active participation in those commitments. Finally, Mr. Heinze noted the bond opportunity may buy "a fair hunk of gas in the ground and allow somebody to proceed with development of it under very favorable terms."

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REPRESENTATIVE RAMRAS called attention to the bill on page 3, lines 15-17, and read:

The Alaska Natural Gas Development Authority shall negotiate with interested parties and shall enter into agreements with interested parties to provide revenue sufficient to accomplish the purposes described in this subsection.

REPRESENTATIVE RAMRAS asked Mr. Heinze to explain how ANGDA will service debt in the amount of the \$250 million bond.

MR. HEINZE explained the agreement with interested parties - for instance, to purchase gas in the ground - would be in an aggregated and collective sense, such as a gas supply co-op.

Furthermore, the agreement would be against electric utilities that need gas to generate electrical power. This commitment would be to take the gas and [for] those shippers who wish to make shipping commitments to lower longer-term costs. Others may be that, in terms of the total tariff structure of an in-state pipeline, the public debt portion would have pledged against the shipping commitments made to move gas through the pipeline.

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REPRESENTATIVE RAMRAS inquired as to the cash necessary to service debt on \$250 million. He remarked:

What part of this would be a 'closed loop' so to speak, so that you're using the \$250 million to acquire an asset that generates revenue so that you can service the debt? ... Acquiring a gas supply, but without delineating that gas and actually monetizing it, I don't quite understand how you are going to generate the revenue. ... I just want to know exactly what your plans would be for this 250 million bucks.

MR. HEINZE stated the authorization simply delegates to the board the arrangement of the terms of the financing and bonding package for what is available at that time. He gave the example of the development of a new resource discovery in the Glennallen region.

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REPRESENTATIVE RAMRAS directed the committee's attention to page 3, line 6, of the bill that read, "The Alaska Natural Gas Development Authority is authorized to issue bonds." On page 3, line 12, the bill read, "Authority may issue the bonds in a single issuance or in several issuances." On page 3, line 15, the bill read, "shall negotiate with interested parties and shall enter into agreements with interested parties to provide revenue sufficient to accomplish the purposes described in this subsection." Representative Ramras asked how long it would take before ANGDA would generate the revenue [needed] to benefit consumers. The testimony suggests ANGDA has the ability to act on a project; however, it does not address the requirement to service the debt as specified in the proposed legislation.

MR. HEINZE referred to ANGDA's bonding provisions which, under AS 41.41.010, specify certain functions. The powers of the

authority include the issuance of bonds, with the one limitation that the bonds must be authorized by the legislature. His understanding of the bill is that it is intended to pre-authorize and delegate to the ANGDA board of directors, the authority to bond for these purposes, up to \$250 million. Furthermore, the board is required to operate with the same fiduciary responsibility as specified in statute. The further intent of the bill is to encourage the public corporation to move forward and help advance the in-state gas issue by placing the onerous on the board of directors to judge projects that "pass muster in a financial sense ... then proceed ahead."

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REPRESENTATIVE RAMRAS, speaking as a member of the private sector, recalled the suggestion that "we'll spend a billion dollars to go to Glennallen, and if nothing else works out, we'll just keep building north." He questioned whether HB 44 requires ANGDA to prove a revenue source to service the debt before spending \$250 million.

MR. HEINZE expressed his understanding that to develop a bonding package ANGDA would have to define how revenue requirements would be developed to service the debt. History suggests that public financing can play a key role in advancing a private sector project and allowing electric utilities to secure better and more secure financing. However, he indicated there is no promise that qualified proposals will develop.

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REPRESENTATIVE RAMRAS re-stated for clarity the \$250 million would not be placed unless ANGDA has the ability to service the debt.

MR. HEINZE remarked:

ANGDA has believed that all the debt needs to be commercially term debt, in other words needs to be financed through general funding banking type institutions, and the last time I looked, all those institutions require very clear debt coverage and other things. There is nothing in this bill that I believe relieves ANGDA and its board or any of the other public corporations, from their fiduciary responsibility ...

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REPRESENTATIVE RAMRAS referring to page 3 of the ANGDA presentation under Opportunities in 2009 & 2010, read:

Purchase of gas supply "in-ground" on North Slope, Copper River Valley, Interior, or Cook Inlet.

REPRESENTATIVE RAMRAS then asked how ANGDA can service a \$250 million debt by purchasing in-ground gas supply and not delineating and monetizing that gas supply.

MR. HEINZE explained the purchase of gas in the ground would be the purchase of the long-term deliverability of gas to be delivered over an extended period of time. Looking at the difference of the finance interest rate of the bond, and the earning rate of return, leaves the opportunity to provide a long-term, stable, and discounted price. If this objective was met during the course of negotiation of the bond package, then the long-term pledge [benefits] consumers, as did the transaction with Anchorage Municipal Light & Power.

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REPRESENTATIVE PETERSEN opined without a commitment from suppliers with gas during open season, ANGDA would not be building a pipeline.

MR. HEINZE relayed the intention is to recognize that [ANGDA] has no control over timing of the open season of the big pipeline; at that time suppliers with gas will have to come forward with commitments to ship to the Lower 48. Shippers may also be interested in shipping to Valdez, Fairbanks, or Cook Inlet. Commitments will be "costed out" based on where the gas is purchased, transportation, and the surety of it. If open season for the "big pipeline" is successful and utilities in the state have not participated, the state will be at a disadvantage in terms of tariff structure and arrangements in the future. If the open season is not successful, then the state will have to look at other possibilities to meet the state's needs. At this point, he said that he is not able to tell whether the pipeline is a sure thing; however, if the state does not participate in the commercial terms of the open season, by making major financial commitments, then the state is at a significant disadvantage.

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REPRESENTATIVE RAMRAS asked whether ANGDA was still planning to spend \$1.3 billion to build a pipe to Glennallen.

MR. HEINZE clarified that ANGDA's plan continues to be the ability to work with any of several different projects; in particular, to see whether commitments are made over the next year on the big pipe. That project represents the best long-term opportunity for the Alaskan consumer. Furthermore, there is an advantage, in terms of economics and cost structure, to the construction of a spur line from Delta Junction to Cook Inlet "on the front side" of the big project. Thus, under favorable conditions one year from now, ANGDA believes it would be in a position to move forward in pre-build mode along with the option to provide gas to Delta Junction, and perhaps the Fairbanks area. Pipeline connecting Delta Junction and Palmer is projected to cost \$1 billion to \$1.25 billion. Mr. Heinze encouraged other public corporations to consider the financing of shorter-term projects to meet energy needs.

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REPRESENTATIVE RAMRAS asked whether ANGDA was ready to commence construction of a \$1.3 billion spur line from Cook Inlet to the Glennallen area, and then on to Fairbanks. Specifically, he asked, "Is that pipe for the purpose of space heat or for kilowatt generation?"

MR. HEINZE opined the Beluga (B2F) project to Fairbanks, if it had existed last July, Golden Valley Electric Association (GVEA) would have taken 17 million cubic feet of gas a day which would have enabled [GVEA] to offer considerable savings on the electric rate to its consumer-owners. Furthermore, that project, on a pre-build basis, will still offer an opportunity in the future. However, a source for gas for this project has not been specifically obtained but, he observed, one of the proposed contracts was for 60 billion cubic feet between Marathon Oil Corporation and ENSTAR Natural Gas Company; that contract would provide more than sufficient gas for GVEA's needs.

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REPRESENTATIVE RAMRAS asked:

So, your \$1.3 billion pipeline, you're prepared ... to do your right-of-way and pursue building it, and ...

that 17 million cubic feet a day, that would have serviced the debt on a \$1.3 billion pipeline?

MR. HEINZE expressed his belief that the economics of the uses of that pipeline between Palmer and Delta Junction, and the service of all the customers along the way, would provide sufficient revenue stream to service the debt.

REPRESENTATIVE RAMRAS asked for the tariff generated by 17 million cubic feet per day.

MR. HEINZE recalled 17 million cubic feet per day works out to about 6 or 7 billion cubic feet a year; thus last July, if the tariff had been \$10, there would have been a favorable circumstance - \$70 million. In further response to Representative Ramras, Mr. Heinze clarified that he did not say \$10 was the tariff, but that [an entity] could afford a \$10 tariff and still be "money ahead."

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REPRESENTATIVE TUCK asked whether the potential revenues to the state directed by HB 44, will be coming through the negotiations process with the bond issuers.

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LAURA ACHEE, Director of Communications, Alaska Permanent Fund Corporation, deferred the question to the Department of Revenue or state agencies with the authority to issue bonds.

[4:27:18 PM](#)

REPRESENTATIVE PETERSEN inquired as to the interest rate the Alaska Permanent Fund Corporation (APFC) is currently receiving for bonds. He also asked whether the APFC anticipates a billion dollar loan to a project similar to the one being discussed, would garner the same interest rate.

MS. ACHEE informed the committee APFC's total bond portfolio is about \$8 billion. This is a well diversified portfolio with a variety of yields. In response to earlier questions, she indicated APFC's investment staff's interest in a specific bond depends upon its review of the bond on the day of issue.

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REPRESENTATIVE TUCK noted that HB 44 grants APFC authorization to invest \$1 billion in in-state energy projects without a stated rate of return, but with negotiated rates of return.

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JERRY BURNETT, Deputy Commissioner, Treasury Division, Department of Revenue, gave the example of a revenue proposal by ANGDA based on an income stream. Based on the rating of the project, the credit rating of ANGDA, and whether they are tax exempt, AAA rated revenue bonds are currently at 5.25 to 5.5 percent. Last year, they were one percent less and next year's rate is unknown. There is a tremendous variability of credit rating spreads and this type of bond will be very project-specific and specific to the entity issuing the debt. He opined Mr. Heinze's point is that if tax exempt rates apply, and a state corporation issued the debt, the interest rate may be lower and savings will flow to the consumer.

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REPRESENTATIVE RAMRAS asked whether the administration supports HB 44.

MR. BURNETT said the administration has not taken a position at this time.

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REPRESENTATIVE RAMRAS asked whether the administration plans to get ENSTAR and ANGDA together to re-establish a dialog on a public-private relationship

MR. BURNETT said he can not speak to that.

[4:32:51 PM](#)

REPRESENTATIVE PETERSEN expressed his understanding the U.S. Congress has passed a guarantee of \$18 billion to back the building of a gas line from Alaska. He asked whether that would have any effect on the bond rating for the project.

MR. BURNETT opined there would be no effect.

[4:33:39 PM](#)

PAUL FUHS informed the committee he was formerly chairman of the board of the Alaska Industrial Development & Export Authority (AIDEA) and the Alaska Energy Authority (AEA). He stated he knew quite a bit about public financing and was one of the authors of the initiative for ANGDA. Mr. Fuhs expressed his support of HB 44 because it keeps [the state's] options open. He spoke of the uncertainty of getting a gas supply to Alaskans, and advised the proposed legislation is permissive language that is not an appropriation or a mandate to sell bonds. In response to Representative Ramras, he emphasized a bond issued by ANGDA is the debt of the authority, not the state. Furthermore, if ANGDA issues a bond without sufficient revenue to pay for it, the bond would not sell. He noted a similar issue with the Wyoming [Pipeline] Authority and encouraged the committee to review its resolution. Mr. Fuhs opined public authorities are tasked to consider the public good which is why ANGDA has looked at a variety of projects, such as value-added processing, and other projects for the benefit of the public. He advised the passage of HB 44 is not an either/or decision regarding a public or a private project, but rather a combination of the two, which is the best result. Mr. Fuhs stated he was speaking as a consumer in Southcentral Alaska.

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REPRESENTATIVE RAMRAS asked Mr. Fuhs to identify the market that would finance \$250 million in bonds for ANGDA.

MR. FUHS advised municipal or state agency debt is generally bundled into larger bond offerings to get a better rate; the bonds are then offered to the general commercial market based on credit worthiness and the ability to repay.

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REPRESENTATIVE RAMRAS suggested if ANGDA bonds were bundled with those of the Alaska Housing Finance Corporation (AHFC), it may cause higher rates for AHFC.

MR. FUHS deferred the question to Dan Fauske, Chief Executive Officer, AHFC.

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REPRESENTATIVE PETERSEN assumed the good faith and credit of the state and the support of the APFC [investment] board would strengthen the value of the bond offering.

MR. FUHS clarified there is no intermingling with the APFC. He said he previously stated the bonds could be bundled with "like" agencies.

[4:41:54 PM](#)

CO-CHAIR MILLETT closed public testimony.

[4:42:05 PM](#)

REPRESENTATIVE DAHLSTROM moved to report CSHB 44, Version 26-LS0231\R, Kane, 2/16/09, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 44(ENE) was reported from the House Special Committee on Energy.

[4:42:32 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 4:42 p.m.