

HOUSE FINANCE COMMITTEE  
March 12, 2009  
8:36 a.m.

[8:36:33 AM](#)

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 8:36 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair  
Representative Bill Stoltze, Co-Chair  
Representative Bill Thomas, Jr., Vice-Chair  
Representative Allan Austerman  
Representative Harry Crawford  
Representative Anna Fairclough  
Representative Les Gara  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Woodie Salmon

MEMBERS ABSENT

Representative Richard Foster

ALSO PRESENT

Tom Wright, Staff, Speaker of the House, Mike Chenault; Laura Achee, Communications Director, Alaska Permanent Fund Corporation; Representative Max Gruenberg

PRESENT VIA TELECONFERENCE

Harold C. Heinze, Chief Executive Officer, Alaska Natural Gas Pipeline Authority (ANGDA); Bryan Butcher, Legislative Liaison, Alaska Housing Finance Corporation (AHFC)

SUMMARY

HB 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."

HB 44 was heard and HELD in Committee for further consideration.

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#hb44

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."

TOM WRIGHT, STAFF, SPEAKER OF THE HOUSE, MIKE CHENAULT, explained that HB 44 preauthorizes the Alaska Housing Finance Corporation (AHFC) and the Alaska Natural Gas Development Authority (ANGDA) to issue bonds for energy related programs and projects. It also gives the legislature approval for the Permanent Fund Corporation to invest up to \$1 billion for in-state energy projects.

Mr. Wright explained that the bill was introduced as an effort to address the state's energy needs and to help promote an in-state gasline. The original bill included the Alaska Industrial Development and Export Authority, (AIDEA) and the Alaska Energy Authority (AEA), but it was discovered that they did not need bonding approval.

Mr. Wright continued to say that although the legislature has authorized a number of these projects through AHFC and has made appropriations to ANGDA, Speaker Chenault believes it is time to progress these needs to a higher level. In particular, the state's gas needs will not wait until a TransCanada or Denali project is completed around 2020.

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Representative Austerman asked about Section 3 of the bill, where AHFC is authorized to issue up to \$100 million for energy projects for homeowners. He wondered if that was new. Mr. Wright reported that the weatherization project and the home energy program were established a couple years ago.

Representative Kelly inquired if AHFC would need funding for those programs in FY10. Mr. Wright said no.

Representative Gara asked if the Permanent Fund Corporation provision was still in the bill. Mr. Wright said it was. Representative Gara opined that the Permanent Fund Corporation should be considered a "pure" investment board that invests when it is reasonable and prudent. He wondered how Section 2 fits into that philosophy. Mr. Wright maintained that HB 44 does not change the fact that the Permanent Fund Corporation must still be prudent with investments. The bill allows the Corporation to invest if they so desire. Representative Gara argued that the bill is unnecessary if there is no change. Mr. Wright clarified

that the bill would encourage the Corporation to look at energy project investments. It is up to the Corporation to determine whether or not to make the investments.

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HAROLD C. HEINZE, CHIEF EXECUTIVE OFFICER, ALASKA NATURAL GAS PIPELINE AUTHORITY (ANGDA), testified in support of HB 44. He informed the Committee that ANGDA, under AS 41.41, is authorized to issue bonds in support of a broad range of projects related to North Slope natural gas and getting gas to market in Alaska. He shared that ANGDA believes it has something to contribute to in-state gas development and in-state gas-powered energy and utilities that comes from the concepts associated with a public/private partnership. Most, if not all of the activities associated with gas sources, transmission, and delivery systems in Alaska will be done by the private sector. It is clear that in the creation of infrastructure, especially for entry level projects, the availability of public-backed financing offers the consumer potential significant long-term advantages in that the interest rates involved would be lower. One major aspect of the planning is to look at facilitating the building of pipelines, but also lowering costs to the consumer.

Mr. Heinze suggested ideas related to bonding authority that, if quickly brought forward, could result in cost-savings to the consumer. For example, Fairbanks Natural Gas has proposed building a liquid natural gas plant on the North Slope and trucking gas to the Fairbanks area for use in electric power and in the gas system. It may be appropriate for ANGDA to become involved in the bonding, in addition to AIDEA.

Mr. Heinze described a couple of ANGDA's projects. One is a wholesale propane facility on the North Slope, which would provide propane to the Fairbanks area, to the River communities, and beyond. Bonding might be useful for two or three aspects of this project in the range of \$25 to \$50 million each.

Mr. Heinze also spoke of the Natural Gas Supply Corporation, a co-op that would work with the electric utility, a member-owned facility. He said that ANGDA would help finance the project through bonds. He listed potential aspects and costs of the project.

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Mr. Heinze related that any spur line project during the open season might require bonding of about \$250 million.

Representative Gara voiced a concern about the bonding of large projects. He wondered if the legislature would have any say after the bonding authority was given to ANGDA. Mr. Heinze reported that under current statute, ANGDA is free to develop, initiate, and work on bonding for any of these purposes. Upon completion, legislative approval must be sought. In HB 44 there is a pre-authorization assumption. It does not relieve the ANGDA board of any of their responsibilities. He suggested that ANGDA works under high visibility and would permit a more responsive timing on some of these issues. The bill is intended to demonstrate a commitment on the part of the legislature to moving forward these kinds of in-state energy projects and places heavy responsibility on the ANGDA Board in a fiduciary sense.

Representative Gara summarized that the bill does not alter the provision whereby ANGDA must seek legislative approval. Mr. Heinze reiterated that the bill represents pre-approval by the legislature. In response to further questioning by Representative Gara, Mr. Heinze pointed out that ANGDA already has bonding authority; the bill pre-authorizes legislative approval.

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Representative Gara maintained that not all gas projects are lucrative. Some may prove to be more expensive for consumers. He was concerned that the bill could be obligating consumers to an expensive project. Mr. Heinze pointed out that the concept of bonding and selling bonds is an excellent test of the commerciality of a proposal. Bankers don't buy bonds unless there is a solid project. There is an ANGDA-related statute that is clearly for the purpose of protecting the public interest. He assured the Committee that ANGDA has defended the consumer's interest during past projects.

Representative Gara agreed that ANGDA has done an outstanding job in the past.

[8:55:00 AM](#)

Representative Austerman asked if the pre-authorization for \$250 million was for all projects and if ANGDA would need legislative approval to spend more than that amount. Mr. Heinze explained that beyond \$250 million, legislative approval would be required.

Representative Kelly inquired how the good faith requirement relates to bond backing by ANGDA. Mr. Heinze understood that ANGDA has no ability to bind the full faith and credit of the state of Alaska. He used the financing of Bradley Lake as an example.

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Representative Kelly inquired about the role between ANGDA and AEA. He gave a hypothetical example.

Mr. Heinze thought there were three realities that come into play. He clarified that ANGDA's interest in working with electrical utilities is strictly related to the gas supply issue. Electric utilities are currently facing significant problems. He stated that ANGDA believes there are some opportunities for a cooperative effort. Studies indicate that electric utilities lack credit to expand or procure a longer term supply. Another aspect is that ANGDA is a public corporation of the state and can work easily with other agencies of the state such as AEA. He concluded that ANGDA can provide help to electric utilities "through the gas side".

Mr. Heinze spoke of the many opportunities to ensure the interaction of public state corporations in public and transparent ways. Each has a different focus in terms of bonding. For example, AIDA tends to work with more industrial-type people.

Representative Kelly asked what the result would be if ANGDA and AEA come to a cross purpose. Mr. Heinze stressed that bonds are not marketable if people can't make sense out of the choices and alternatives. Representative Kelly asked if there was a mechanism to address that situation. Mr. Heinze explained that is no one person who looks at all of the public corporations at the same time.

[9:03:44 AM](#)

Co-Chair Hawker assumed the gavel.

Co-Chair Hawker noted that under the existing ANGDA statute, ANGDA has unlimited bonding ability and requires legislative approval. He suggested that the bill does grant immediate legislative approval for ANGDA to bond up to \$250 million for a specified list, but it is a limited segment of ANGDA's overall corporate authority. Mr. Heinze responded that the bill is intended to allow responsiveness on certain specific topics that may be time-critical projects. It is a restricted list. It does not eliminate the broader authority granted in the original statute, which allows bonding in amounts in excess of \$250 million for a broader array of purposes and requires legislative approval.

[9:05:40 AM](#)

Co-Chair Hawker requested more information about the limited authority under the proposed legislation. He thought that the projects mentioned in Mr. Heinze's previous testimony

went beyond the scope authorized under the proposed legislation. He paraphrased from Section 4 of the bill. He said that ANGDA is authorized to issue bonds to acquire gas supply, to develop the Cook Inlet and Fairbanks markets, and to plan, permit, and design gas transmission systems.

Co-Chair Hawker asked Mr. Heinze what he thought the meaning of "develop the Cook Inlet and Fairbanks markets". Mr. Heinze clarified that it meant "gas markets". Co-Chair Hawker maintained that the bill does not say that. Mr. Heinze got specific and named several projects: the Fairbanks natural gas LNG plant, which would feed the Fairbanks market during the development stage of the larger pipeline; the wholesale propane facility on the North Slope that would feed the Fairbanks and Interior market on an interim basis; the gas supply co-op, in terms of storage.

[9:08:30 AM](#)

Co-Chair Hawker termed it broad-reaching authority. He wondered how to interpret the bill in terms of "plan, permit, and design gas transmission systems to mitigate shortfalls and ensure energy sufficiency for Alaskans". He concluded that the clause would limit ANGDA to planning, permitting, and designing transmission systems, and not authorize ANGDA to construct anything. Mr. Heinze clarified that the private sector would be the builder-owner of projects and ANGDA would be involved in the front end of the process and in financing. He maintained that the legislation is not intended for bonding to enable ANGDA to become the owner of a project.

Co-Chair Hawker summarized that under this legislation, ANGDA can acquire a gas supply, design the system, and then hand ownership off to another entity. He inquired where the revenue stream would be established that would make bonding viable. Mr. Heinze replied that the revenue stream would come after gas comes out of the ground, in partnership with electric utilities, as a result of long-term use of the gas. He explained that ANGDA would act as the financier allowing the utilities a user discount through low interest financing.

[9:11:52 AM](#)

Co-Chair Hawker concluded that the only real authority added by the bill would be to allow ANGDA to bond in order to become a commodities investor. He questioned the wisdom of such legislation.

Mr. Heinze gave an example of the Beluga Gas Field, which is one-third owned by Anchorage Municipal Light and Power, as how ANGDA has successfully financed energy projects in the past. He suggested that there could be similar future

projects; however, they must be fundamentally sound or no bonds will ever be issued.

[9:13:40 AM](#)

Representative Gara wondered how Section 4 of the bill could be rewritten. He maintained that not everyone who would want to construct a pipeline has the consumer's best interest at heart. He wished to try to avoid a contract that obligates the consumer to higher-priced gas. He noted that in the current language ANGDA must consider the consumer's interest in two areas: energy sufficiency and mitigating gas shortfalls. He pointed to lack of legislative approval in the bill.

Mr. Heinze observed that he does not have suggestions at this time. He countered that ANGDA has been doing work with public/private partnerships for some time. He stressed that ANGDA is interested in defining all the parameters of public/private partnerships. He emphasized that it is key to recognize that the private sector has an important role to move forward and has different motives than the public sector. He believed that the protection of the public component is reasonably accomplished through the seven public members of the ANGDA Board exercising their fiduciary responsibilities. Also, most public/private approaches are carefully viewed by financial institutions.

[9:17:19 AM](#)

Representative Kelly referred to the Greater Railbelt Energy and Transmission Corporation (GRETC) that the governor has proposed. He wondered if there were too many entities involved now in the attempt to solve Railbelt energy problems. He understood the need to solve energy problems more efficiently.

Mr. Heinze emphasized that ANGDA does not see any of their actions in opposition to proposed legislation related to forming a super-utility. He believed that there is short-term value for electric utilities to work together, achieve market power, and deal with the issue of supply. He suggested a traditional, farmer's co-op organization where members make decisions on services. A responsiveness is needed that can't be achieved through a larger approach. There is no requirement for anyone to use any of the services or bonds. He emphasized that ANGDA wants to respond to the requests.

[9:22:14 AM](#)

Representative Kelly voiced concern that when too many entities are involved, it hard to know who is in charge.

[9:23:21 AM](#)

BRYAN BUTCHER, LEGISLATIVE LIAISON, ALASKA HOUSING FINANCE CORPORATION (AHFC), gave AHFC's perspective of the bill. He related that AHFC is fine with the language in the bill. He agreed with Mr. Wright's testimony that the bonding authority included in the bill is not needed for FY10. There are sufficient funds in the weatherization and home energy rebate programs to make it through the fiscal year.

Co-Chair Hawker summarized the intent of Section 4 of the bill: AHFC would be using the money to make grants for energy efficiency loans for homeowners. Mr. Butcher said the bill would allow AHFC to bond funds to continue the home energy rebate program or the weatherization program. There is also language that the dividend would be used for debt service payments if AHFC were able to sell the bonds.

[9:26:00 AM](#)

Co-Chair Hawker stated that the borrowed money would be used in a manner that did not generate any form of repayment. The collateralization the bonding agency would be looking for would be the ability to reduce the amount of AHFC receipts back to the state. There would be a reduction in money used in the budgeting process. Mr. Butcher agreed.

Co-Chair Hawker asked Mr. Butcher if he believed the bill addresses the two aforementioned programs, even though they are not specifically defined in the legislation. Mr. Butcher said he did.

Co-Chair Hawker requested information about the section of the bill that relates to the Alaska Permanent Fund Corporation.

LAURA ACHEE, COMMUNICATIONS DIRECTOR, ALASKA PERMANENT FUND CORPORATION, stated that she was available to answer questions.

Co-Chair Hawker asked if the bill is in conflict with current statutory requirements as they relate to the management of the permanent fund. Ms. Achee thought there was no conflict and the language was clear. She related that a conversation with the sponsor clarified that the bill is not an investment mandate. She characterized the legislation as a statement of support if the Board would choose to go in that direction. She recalled previous testimony where some constituents believed the fund should be invested in the gasline and others held the opposite view. She emphasized that the board makes decisions for the best investment of the fund.

[9:29:14 AM](#)

Co-Chair Hawker summarized that the language is permissive but is not direct legislative interference with investment policies of the Corporation. Ms. Achee agreed.

Co-Chair Hawker closed public testimony.

Co-Chair Hawker listed the three new zero fiscal notes from the Department of Revenue. He reiterated that the bill creates authority, but no future obligations. He questioned if the fiscal notes were truly zero notes or if they should be indeterminate fiscal notes.

Co-Chair Hawker requested an opinion by the state's debt manager at a future meeting.

HB 44 was heard and HELD in Committee for further consideration.

[9:31:28 AM](#)

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ADJOURNMENT

The meeting was adjourned at 9:31 AM.