

HOUSE FINANCE COMMITTEE
March 29, 2010
1:41 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:41 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Representative Jay Ramras; Ted Leonard, Executive Director, Alaska Industrial Development and Export Authority (AIDEA); Margaret Dowling, Staff, Representative Ramras; Pat Carter, Consultant, Delta Western; Juli Lucky, Staff, Co-Chair Hawker; David Brower, Assistant Attorney General, Department of Law

PRESENT VIA TELECONFERENCE

James Hemsath, Deputy Director, AIDEA; Lieutenant Kat Peterson, Alaska State Troopers

SUMMARY

HCR 19 AIDEA REPORT ON IN-STATE FUEL STORAGE

HCR 19 was REPORTED out of Committee with no recommendation and with previously published fiscal note: FN1 (HL+C CMT)

HB 386

CITATIONS

CS HB 386 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal notes: FN1 (DCED), FN2 (DLWD), and FN3 (DPS)

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#hcr19

HOUSE CONCURRENT RESOLUTION NO. 19

Urging the Alaska Industrial Development and Export Authority to present a business case to the Alaska State Legislature that includes a method for financing, a plan to solicit proposals for a public and private venture, and an analysis of the economic feasibility of a state-built and privately operated fuel storage facility that would serve the public interest by providing Alaskans with a reliable source of jet fuel, diesel, and gasoline at competitive prices.

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REPRESENTATIVE JAY RAMRAS presented an overview of HCR 19, a resolution to explore an opportunity for a third party, who has the capacity and balance sheet, to obligate themselves over a long term cycle to be an operator for a lease of liquid storage. A study was commissioned and completed on retail gas prices in Alaska that concluded nothing illegal had been going on in gasoline refining in the state of Alaska. The refineries charged what the market would bear. Price regulation and gouging was rejected as a factor, therefore the study began to look for market courses to make the price of fuel more affordable. One of the remedies explored was getting another refinery into the gasoline business. Representative Ramras explained the high prices throughout Alaska. He noted that 85 percent of gasoline is refined in Flint Hill, Nikiski, and Tesoro refineries. He explained how these refineries work with

extraordinarily high costs passed to the consumers. Another option would be an expansion of the tank farm at the port of Anchorage. HCR 19 would expand this tank farm in Anchorage benefiting Alaskans throughout the state.

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Representative Gara contended that there are two approaches to reduce prices for motor fuel; the price gouging bill which he favors, and this non-binding resolution. He questioned how the resolution will do anything and why a resolution was needed.

Representative Ramras maintained that it is not necessary, but argued that the people do not need the heavy hand of government trying to set the price of gasoline with price regulation. This resolution is not essential, but helpful for Alaskans to look at the variety of market place solutions.

Representative Gara clarified that the price gouging bill does not set prices. He maintained that currently there are private entities trying to move forward with fuel storage. He questioned how sending a non-binding resolution to a state agency moves things forward.

Representative Ramras expressed that it is helpful for all Alaskans to know other available options. This resolution would allow the people of Alaska to know that the legislature is a pro-active not passive body. Those private entities interested in exploring a private tank farm would benefit from this legislation.

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Vice-Chair Thomas explained that in the smaller communities of Southeast fuel is brought in by barges at high cost and sometimes the fuel storage can work against them.

Representative Ramras agreed and mentioned other villages with similar problems. He maintained that fuel storage may not work if it is possible to deliver cheaper from Cherry Point. He related that existing refineries may drop their price to meet bulk storage prices. He asserted that there needs to be a third party operator with a significant balance sheet involved. He talked of the big box stores using unbranded fuel and if prices are lowered then the

third party operator would be at risk. AIDEA, in building their business case, will search for an operator with a strong balance sheet.

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TED LEONARD, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (AIDEA) indicated that he was available to answer questions. He shared that AIDEA has been going through many internal changes. One of AIDEA's goals is to serve as a central resource in looking at the feasibility for economic incentives and infrastructure. This project could be a state or AIDEA owned or can be a shared facility. AIDEA would develop a business case for the legislature.

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JAMES HEMSATH, DEPUTY DIRECTOR, AIDEA (via teleconference), presented a PowerPoint slide presentation. He referred to Slide 2, HCR 19 Fuel Storage Business Case:

Urging the Alaska Industrial Development and Export Authority to present a business case to the Alaska State Legislature that includes a method for financing, a plan to solicit proposals for a public and private venture, and an objective analysis of the economic and business feasibility of a state-built and privately operated fuel storage facility that would serve the public interest.

Slide 3, AIDEA's Role:

- Provide an objective analysis examining both the economic development impact and feasibility of a storage facility as well as the long term viability of the project.
- As part of the analysis identify potential private and public sector users of the facility
- In conjunction with EconOne, look all aspects of the fuel supply system in the State and the impact additional storage would have for the different regions.
- Examine possible ways of financing this project which could include AIDEA financing through ownership as a Development Finance Project (AS 44..88).
- As a possible owner of the storage facility, act as a consolidator for multiple users and demands assuring open access to storage.

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Mr. Hemsath presented Slide 4, Action Plan:

- Market Analysis
 - Continuation of last years efforts by EconOne
 - Military
 - Long term Air Cargo
 - Fuel supply reliability
- Engineering Layout and Cost Estimate
 - Space constraints
 - Multiple tanks, vapor recovery, additives, labs
 - Schedule
- Establish Basic Business Case Model
 - Competition
 - Market risks
 - Economic impact

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Mr. Hemsath continued with Slide 5, AIDEA Business Case:

- Open access
- AIDEA owned - contracted operator
- Generate revenue
- Market and market risk
- Competition
- Economic development
 - Job creation/diversification
- Open Season

Slide 6 showed the different transportation routes of fuel supply in the state: marine, river, air, road and rail. Mr. Hemsath moved to Slide 9 Moving Forward, with a statement of AIDEA's mission: The mission of the Alaska Industrial Development and Export Authority is to promote, develop and advance economic growth and diversification in Alaska by providing various means of financing and investment. Mr. Hemsath continued with Slide 10, Development Finance Program with excerpts of program statute which has the ability to acquire:

- An interest in a project as necessary or appropriate to provide financing for the project
- Manage and operate projects as the authority considers necessary or appropriate to serve a public purpose
- Equip, operate, maintain, construct, or install facilities that will enhance the competitiveness of the international airports (AS 44.88.080)

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Mr. Hemsath moved to Slide 11, Development Finance Program:

- Under AS 44.88, the project must be endorsed by the local government
- The project and its development must be economically advantageous to the state and to the general public welfare and will contribute to the economic growth of the state;
- The project applicant is financially responsible
- The project is economically and financially feasible and able to produce revenue adequate to repay the bonds or loans with which it is financed.

Mr. Hemsath indicated that Slide 12 reflected some of the current Development Projects:

- DeLong Mt. Transportation System
- FedEx Maintenance Facility
- Snettisham Hydroelectric Project
- Ketchikan Shipyard
- Skagway Ore Terminal
- Healy Clean Coal Project

Slide 13 Port of Anchorage Fuel Terminal shows that if the project is viable and if no private entities would be willing to take up this role and it was appropriate for AIDEA, then:

- 500,000 to 1,000,000 barrels of fuel storage capacity
- Open access
- Product transferred by pipeline, barge, truck and railcar
- Enhance the statewide fuel system
- AIDEA contract with operator
- Open season for storage commitment
- Estimated cost \$75 - 100 million

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Representative Austerman commented that AIDEA would be using AIDEA receipts for this project. Mr. Leonard commented that there is money in their budget to do the feasibility studies that would benefit the state and AIDEA. Representative Austerman suggested that natural gas be considered in this resolution.

Representative Gara remarked that AIDEA normally decides what the most promising projects are and does not usually wait for the legislature to decide which projects to work on. Mr. Leonard replied that in the past usually there is a reactive mode or a business will come in before looking at a project. Through this strategic plan AIDEA would take on an advisory role. This has not gone through AIDEA yet to see if AIDEA is interested. If the legislature believes there is a need for an economic infrastructure project, then AIDEA would advise them.

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Representative Gara asked, under AIDEA's current rules, if they thought a project was worthy then AIDEA would proceed without the legislature. Mr. Leonard replied that was correct. Representative Gara asked if AIDEA has been in contact with interested private parties. Mr. Leonard replied there have been some parties who have expressed an interest. Representative Gara inquired if these private parties presented a promising case would AIDEA work on it without waiting for a legislative resolution. Mr. Leonard explained that in the normal course of things they would look at the feasibility, but maybe not on a stateside basis. This resolution looks across the state. Representative Gara asked if a private entity comes forward, AIDEA would look at the proposal and if it is viable then would work on it no matter if the resolution is passed or not. Mr. Leonard replied that was correct.

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Representative Doogan remarked that the idea is there is a possibility that someone can make money by building and maintaining a storage facility which could hold lower price gas that is able to roll out and compete against others without this facility. Mr. Leonard responded that it is about more than just gasoline; there is jet fuel, security and aviation fuel, and military fuel.

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Representative Doogan noted that there are already companies that supply these fuels and inquired if this would negatively affect their operations. Mr. Leonard observed that is part of what a study would substantiate. There needs to be a verification of the capacity needed for all sorts of fuel storage.

Mr. Hemsath answered that the short answer was yes, but also not entirely sure. The demand of fuel and supply needs to be better understood. There are some who believe that the ability to share liquid products on the open market would make the price more competitive. In addition, the security of jet fuel is important in the state. There is also the aspect of peak demands. The question is if this storage would add sufficient security to the state and how would that impact other businesses in state that are already producing.

Mr. Leonard interjected that AIDEA is not a proponent of this project at this time, but only providing an economic impact analysis. He added that AIDEA would return to House Finance to ask for bonding capability in order to move forward.

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Representative Doogan mentioned that this seems like a solution looking for a problem. If the problem is not being able to get the fuel, then there may be a need for more storage, but it could be a pricing problem. He expressed confusion on what problem is trying to be solved and why a study would solve it.

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MARGARET DOWLING, STAFF, REPRESENTATIVE RAMRAS, noted that Pat Carter, representing Delta Western, was available to speak and answer questions.

Representative Joule asked what would be the impact on local refineries in the state. Mr. Leonard stated that the state would not build this facility without being paid for it. He stressed that there would be a price over 20 years that whoever used the tank farm would pay for the full cost of the facility plus a rate of return.

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PAT CARTER, CONSULTANT, DELTA WESTERN, observed that there has been a steady demand for fuel, but a decrease in production of in-state refined materials. There has also been a steady decrease in Jet-A fuel. The concept of the fuel storage is to bring in large volume tankers to Anchorage to obtain better prices.

Representative Gara inquired if Mr. Carter's prime goal was to use the storage for Jet-A fuel. Mr. Carter replied it would be for all fuels sold.

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Representative Kelly inquired about what the volume discount would be. Mr. Carter replied that he did not know. He explained that there are different purchases from different locations that vary daily.

Representative Kelly asked Mr. Leonard what the cost would be for the agency to get to the first milestone in this project. He also wondered if a resolution would be looked at as a suggestion or a definite decision to do it. Mr. Leonard responded that if there is a resolution from the House, then the study would be done.

Mr. Hemsath interjected that AIDEA's cost would be about \$30,000 for an engineering study. He remarked that the potential exists that there could be a 20 cent discount with a larger tanker load.

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Representative Gara asked Mr. Carter if Delta Western was already looking at this project. Mr. Carter said that Delta Western had initiated this in response to questions from the legislature regarding the high price of fuel around the state. One of the primary points listed was the lack of fuel storage. Delta Western met with AIDEA, former governor Sheffield, Representative Ramras and the port of Anchorage.

Representative Gara asked if this project could move forward without the \$30,000 study from AIDEA. Mr. Carter responded that if Delta Western built it, it would not solve the problem. Historically there has been a 10 to 15 cent price difference between Alaska and Seattle; now it is one dollar. There is eight-five cents on the table, therefore if Delta Western became the proprietary storage, they would take the eighty-five cents. If it is third party storage with independent operation, then the money would trend down to lower price.

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Representative Kelly questioned how many barrels arrive in Anchorage and the amount that would be placed in this tank storage facility. Mr. Carter replied that new tankers could hold about 1/2 to 1 million barrels. Representative Kelly asked if that would be a tank sizing thing. Mr. Carter responded that the storage would have to have the open seasons prior to construction. Therefore based on the success of the open season, that would drive the new fuel storage. Representative Kelly judged that there would be no way of knowing before the study what the barrels in and barrels out would be. Mr. Carter thought many other groups might want to buy storage, but it was impossible to know until the study was completed.

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Co-Chair Stoltze reiterated that the fiscal note was zero, but \$30,000 was budgeted to generate the study and report. Mr. Leonard reported that he did not know how much EconOne would be paying, but \$30,000 would be AIDEA's share.

Co-Chair Stoltze asked for public testimony.

Co-Chair Stoltze closed public testimony.

Representative Fairclough disclosed that she was supportive of resolution, but voiced concern that Anchorage has been moving storage outside the Government Hill location and that the community and neighborhood have been opposed to increases in tank farm storage in that area. She noted adding storage would be a reverse of the past trend to remove storage fuel facilities. She inquired if there would be any land use issues overriding local law in the placement of storage in the community. She remarked that a local community has had an adverse impact in regard to storage tanks close to their homes.

Mr. Hemsath returned to Slide 8 with a map of the Anchorage port showing the location of the new tank storage. He indicated that the yellow area was completed with the red area indicating water. The storage tank and fuel loading facilities would be away from the Government Hill area.

Representative Fairclough agreed that appeared to address some of the immediate neighborhood concerns, but wondered if the land being developed could hold some of the existing

storage facilities or is the placement determined by tanker access.

Mr. Hemsath stated that this is space where the port has available space and where they want the fuel loading ships brought in. He emphasized that there has been no study on reconfiguring the existing storage tanks. Representative Fairclough asked for some help on Slide 8 in finding where the tankers would come in. Mr. Hemsath indicated that it would be to the right of three large white storage tanks. This area could hold five storage tanks.

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Co-Chair Hawker MOVED to report HCR 19 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

HCR 19 was REPORTED out of Committee with a no recommendation and with previously published fiscal note: FN1 (HL+C CMT)

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AT EASE

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RECONVENED

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#hb386

HOUSE BILL NO. 386

"An Act establishing a uniform format and procedure for citations for certain violations of state law; relating to the form, issuance, and disposition of citations for certain violations; relating to certain crimes and penalties for noncompliance with citations; and providing for an effective date."

Co-Chair Hawker MOVED CSHB 386 (FIN), 26-LS1525\E, Luckhaupt, 3/25/10 as a working document.

Co-Chair Stoltze OBJECTED for discussion.

Co-Chair Hawker referred to page 8, line 23, there is a small clarification that adds the words "be in writing" to make sure the citations involved have a written paper trail behind them.

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, CSHB 386 (FIN) was adopted as a working document.

Co-Chair Hawker, the sponsor of the bill, explained that this is the first hearing of the bill in house finance. This legislative request was brought by the Department of Public Safety in regard to their efforts in recent times to identify how they can establish uniformity and simplify the procedure for the processing of citations for "violations." Across the state there has been a lack of consistency and an increase in inefficiency and cost, especially as the agencies have been attempting to adapt to electronic processing of these citations. This bill is intended to be unification and standardization of citations.

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JULI LUCKY, STAFF, CO-CHAIR HAWKER presented a short overview of the bill. This bill sets up a uniform citation format which is established by the commissioner of Public Safety by regulation. It also establishes a uniform citation process with standard reasonable deadlines, standard penalties, and standard record keeping requirements.

LIEUTENANT KAT PETERSON, ALASKA STATE TROOPERS (via teleconference) added that state troopers and the Department of Public Safety have tried to push through to fix some of the law identified for a standardized format of the citations for all statewide law enforcement. This would apply to both paper and electronic formats. The goal is to be more efficient, effective and cheaper for the departments.

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Representative Gara inquired if this bill turns anything into a crime that was not previously a crime. Lt. Peterson responded no. Representative Gara inquired if there is a new warrant provision. Ms. Lucky responded no.

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Co-Chair Stoltze asked for any questions.

Representative Fairclough noted that Section 44 of the Overview Section allows citations to be given for

violations in the Knik River Public Use Area which may have not been previously allowed.

DAVID BROWER, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW declared that no new crimes are created with this bill.

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Representative Salmon referred to page 1, line 8 of the bill and asked for the definition for an "established village."

Mr. Brower responded the definition was in current law. This bill would not change anything.

Representative Salmon questioned what the term "established village" refers to.

Co-Chair Stoltze expounded that it is in existing law.

Mr. Brower assumed the term was defined somewhere in law.

Co-Chair Stoltze asked for public testimony.

Co-Chair Stoltze closed public testimony.

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Co-Chair Hawker reported zero fiscal notes with no new amendments.

Co-Chair Hawker MOVED to report CS HB 386 (FIN) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CS HB 386 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with previously published zero fiscal notes: FN1 (DCED), FN2 (DLWD), FN3 (DPS)

[3:03:09 PM](#) AT EASE

[3:03:53 PM](#) RECONVENED

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ADJOURNMENT

The meeting was adjourned at 3:04 PM

