

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON ENERGY

April 2, 2009
11:42 a.m.

MEMBERS PRESENT

Senator Lesil McGuire, Chair
Senator Albert Kookesh
Senator Bill Wielechowski

MEMBERS ABSENT

Senator Lyman Hoffman
Senator Bert Stedman

OTHER LEGISLATORS PRESENT

Senator Joe Thomas
Senator Joe Paskvan

COMMITTEE CALENDAR

SENATE BILL NO. 135

"An Act clarifying the purpose of the Alaska Natural Gas Development Authority; and relating to definitions of certain terms in AS 41.41."

HEARD AND HELD

SENATE BILL NO. 162

"An Act relating to a heating fuel energy relief program; and providing for an effective date."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 135

SHORT TITLE: ALASKA NATURAL GAS DEVELOPMENT AUTHORITY

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

03/02/09	(S)	READ THE FIRST TIME - REFERRALS
03/02/09	(S)	ENE, RES, FIN
03/19/09	(S)	ENE AT 11:00 AM BUTROVICH 205
03/19/09	(S)	Scheduled But Not Heard
03/26/09	(S)	ENE AT 11:00 AM BUTROVICH 205
03/26/09	(S)	Scheduled But Not Heard
04/02/09	(S)	ENE AT 11:30 AM BUTROVICH 205

BILL: SB 162

SHORT TITLE: HEATING FUEL ENERGY RELIEF

SPONSOR(S): PASKVAN

03/25/09 (S) READ THE FIRST TIME - REFERRALS
03/25/09 (S) ENE, RES, FIN
04/02/09 (S) ENE AT 11:30 AM BUTROVICH 205

WITNESS REGISTER

JOE BALASH, Special Assistant on Energy and Gas Issues
Governor Palin
State Capital
Juneau, AK

POSITION STATEMENT: Presented SB 135.

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

POSITION STATEMENT: supported SB 135.

PAUL FUHS, representing himself
Juneau, AK

POSITION STATEMENT: Supported SB 135.

MR. OSTNESS, representing himself
Cordova, AK

POSITION STATEMENT: Technical difficulties - indiscernible testimony.

BILL WARREN, representing himself
Nikiski, AK

POSITION STATEMENT: Supported SB 135.

SENATOR PASKVAN
State Capital Bldg.
Juneau, AK

POSITION STATEMENT: Sponsor of SB 162.

SCOTT RUBY, Manager
Division of Operations
Department of Commerce, Community and Economic Development

POSTIION STATEMENT: Said he was available to answer questions on SB 162.

ACTION NARRATIVE

[11:42:43 AM](#)

CHAIR LESIL MCGUIRE called the Senate Special Committee on Energy meeting to order at 11:42 a.m. Present at the call to order were Senators Wielechowski, Kookesh and McGuire.

SB 135-ALASKA NATURAL GAS DEVELOPMENT AUTHORITY

[11:43:34 AM](#)

CHAIR MCGUIRE announced SB 135 to be up for consideration.

JOE BALASH, Special Assistant to Governor Palin on Energy and Gas Issues, said SB 135 is one of three elements in the Governor's three-part plan to initiate progress and work on an in-state gas delivery system, specifically looking at what has been traditionally referred to as a "bullet line." This bill fits in with the other two elements and addresses what is the most logical vehicle for pursuing development of natural gas in Alaska through the Alaska Natural Gas Development Authority (ANGDA).

ANGDA was created by voter initiative in 2002 and has some very specific assignments to carry out as conceived by its drafters. That work was fulfilled; and now ANGDA has begun looking at other options for bringing gas to market to Alaskans engaging in a number of different projects and efforts on sort of a forward looking basis, but in a manner not entirely consistent with the statutory direction provided in AS 41.

MR. BALASH said the bill is fairly straight-forward and makes sure that ANGDA can look at gas supply options other than the North Slope and can look at delivery options other than just to Southcentral or to tidewater to market. He said this is consistent with the Governor's vision that Alaska's natural gas resources be made available to and usable by each and every Alaskan wherever it makes sense.

[11:46:09 AM](#)

He returned to two questions that Senator Wielechowski had asked at the last hearing on one of the other companion bills. He had asked whether or not the administration had asked for a change in leadership at ANGDA. He committed to going back and asking the questions and while he knew of the conversations, he wasn't a party to them. The discussion in those conversations did touch on the leadership of the Authority, the corporation and its employees. Options were discussed, but there was no pressure on the chair to make a particular change.

SENATOR WIELECHOWSKI said he appreciated the answers, and asked who was a party to the conversations.

MR. BALASH replied those occurred a few weeks ago between the Governor, her chief of staff, and Scott Hayward, the chair.

SENATOR WIELECHOWSKI asked if anyone asked for or suggested resignations from ANGDA.

MR. BALASH replied that it wasn't described in that manner. Some discussions were had on how to make some transitions. They talked about the future of ANGDA, the work that it could be doing, the direction the Governor wanted to go, looking at the options available for instate gas, and organizational changes.

SENATOR WIELECHOWSKI said since this is an ANGDA bill and they will be talking about where it is going to go, he wanted to ask what the administration's concerns with it are.

MR. BALASH responded that fits in with Senator Wielechowski's other question at the last meeting. The question was whether or not any contracts for ANGDA had been denied by the administration, and the answer is yes, one that was to pursue the initial feasibility of a pipeline going into western Alaska. The reason it was denied is that the appropriation authority cited in the contract document cited an appropriation in last year's capital budget, but there was no mention of delivery to western Alaska in the discussion there. It was all about just Cook Inlet and Prince William Sound destinations. The concern was that there wasn't the proper appropriation in place to fund that kind of work. That is what invited the question of what other things ANGDA has been doing. The legislature broadened the scope of the Authority to include not just Prince William Sound, but also Cook Inlet, as a potential destination and sight of an LNG facility.

[11:51:19 AM](#)

ANGDA has been investigating delivery of propane to other parts of the state, namely coastal areas and locations along the river system. Propane could be a better alternative, and a more efficient alternative in many villages. While that work is commendable, it is not explicitly clear that it is something the statute authorizes.

SENATOR WIELECHOWSKI asked if this bill addresses the administration's concern with the direction of ANGDA and clarifies where they think it needs to be.

MR. BALASH replied this language provides the kind of flexibility ANGDA needs to have to reach the Governor's vision for an in-state natural gas pipeline to Southcentral. However, that is a limited and limiting role that the administration would like to expand. They want to see what the options and opportunities are to deliver gas to other parts of the state.

SENATOR WIELECHOWSKI asked if the Governor thinks ANGDA needs leadership changes.

MR. BALASH responded that they have gone through some difficult experiences over the last year in terms of trying to get cooperative efforts between parties. It's possible a new face is needed.

SENATOR WIELECHOWSKI said he understands that the board of directors of ANGDA is the final arbiter of who leads ANGDA, and the Governor gets to appoint those people. Is that accurate?

MR. BALASH said that is correct. The corporation is lead by a seven-member board of directors and the Governor appointments them. Those appointments are not subject to legislative confirmation, because it's not a quasi-judicial entity.

CHAIR MCGUIRE said there has been a lot of discussion about what people were voting for when they voted for ANGDA, but the ballot language said that the Authority would be created for the purpose of developing, constructing and managing and operating a gas pipeline from the North Slope of Alaska and a spur line to Southcentral Alaska natural gas distribution grid. Her question is more philosophical. Some people say they envisioned a quasi-governmental entity that would live on into existence and "have all these other tentacles to it," and some say "really what the people were doing is they were voting because they wanted to see a natural gas pipeline and they have wanted one for many years - and the frustration that they had could be exercised at the ballot." So, what does this governor think the people were saying in this vote and how is that not consistent with an expansion of ANGDA?

[11:58:24 AM](#)

MR. BALASH replied that the Governor voted for the initiative and believes in the vision. He hasn't talked with her about what

the voters were thinking. When you look at the voter returns, everyone in every district voted for that initiative.

11:59:39 AM

CHAIR MCGUIRE asked if voters today would vote for a ballot proposition that reflects the language contained in SB 135.

MR. BALASH said he couldn't speculate as a member of the administration, but as someone who has been around politics for 12 years, he would expect it to pass by a significant margin. Voters don't get to chose to amend language; they just get a "yes" or a "no" option at the ballot box.

CHAIR MCGUIRE remarked that this Authority was created by a vote of the people and here the legislature sits expanding it - more dollars, more positions, and more bureaucracy - all of the things that come with agencies. It's always important to remember the reason behind its original creation. Where in the next decade does he see ANGDA fitting in, in terms of the need for a gas pipeline and affordable energy to Alaska including rural Alaska and Southeast Alaska?

MR. BALASH answered that the best way to identify where it fits in is by going back to its title - the Natural Gas Development Authority with emphasis on "development." He envisioned that it would continue in the development sphere - the early dollars for identifying, estimating the cost of, and planning the work that would then be picked up by a private entity to take on as an investment that makes sense.

12:03:50 PM

In terms of a bureaucracy, he wouldn't characterize the administration's vision of ANGDA as being some new a super agency whatsoever. But with regard to the opportunities for natural gas development in the state use of the natural gas at the most efficient and economic level, the administration continues to maintain that the best way to make gas available to Alaskans is through a large-diameter pipeline that helps secure both delivery of gas at the most efficient way possible, but also would help stabilize and secure the state's fiscal future.

The challenges they face in the cost and availability of energy all around Alaska are significant to say the least. The challenges presented in each nook and cranny are different and have to be solved in different ways. And so coming back around the identification of the AHFC and the other pieces of state government, it is clear that they need to work on identifying a

single point of contact, and right now AHFC and AEA programs in the Department of Commerce and Economic Development (DCCED) and the Department of Health and Social Services all have something to do with energy. So, they have sought to revitalize the Alaska Energy Authority by appointing Mr. Haagenson last year as the executive director. For years the AIDEA and AEA executive director were one and the same.

CHAIR MCGUIRE said she is envisioning an energy organizational chart later in the interim because she thinks it would be good to see how all the state and federal organizations and efforts fit together.

[12:07:55 PM](#)

SENATOR THOMAS said that seeing how departments are coordinating would be useful for all the departments of government "because there's a lot of duplication." He said the bill appears to be an expansion of what takes place and markets, but he sees it as a good thing, because it is more practical. It actually focuses things a little more on what they are attempting to do with the creation of ANGDA. He thought they were headed in the right direction.

SENATOR WIELECHOWSKI said his statement that the administration still believes that our best prospect for in-state gas is through a large-diameter pipe.

MR. BALASH answered that is correct.

[12:12:10 PM](#)

CHAIR WIELECHOWSKI asked then, why are they hiring Harry Noah and saying that they want to build the bullet line, not a large-diameter line.

MR. BALASH replied that the nature of the work that Mr. Noah is doing is not with a predetermined outcome. They know there is some need for gas delivery from outside of Cook Inlet into the Southcentral market and it could be a time period before a large-diameter pipeline is operating. There are uncertainties about when that pipeline will happen and if there is a need to fill the gap in the meantime, they need to know what the options are. The lead time for a small-diameter pipeline, a bullet pipeline, is significant. People have been talking about the magnitude of everything in Alaska and have been talking about a 1,700-mile, 48-inch pipeline for so long that the idea of an 800-mile pipeline that is 20-24 inches seems small, but in fact, it's world class. It would be one of the largest developments in

the world. So the lead time involved in identifying that particular kind of project is significant enough that if they don't start working on it now, it may be too late to consider that as an option in 2011 or 2012 when the state will know what its choices really are. It is maintaining the state's options without having a predetermined outcome in mind.

12:12:59 PM

SENATOR WIELECHOWSKI said he has based a lot of his decisions on this issue on statements that were made by the administration and TransCanada, and all the statements he has heard are that the large-scale line is scheduled to be completed in 2018. Today is the first day he is hearing the administration say there are uncertainties about when the large-scale line will happen. Do you have new information that the large-scale line will not be ready in 2018?

MR. BALASH answered when the two commissioners of the DNR and DOR reviewed the AGIA application submitted by TransCanada last year, the proposed schedule for completion and first gas in 2018 was determined to be achievable, yet aggressive. They prepared a cost/schedule curves that weighted the probabilities of various things happening on the critical path, and he didn't recall whether the 50 percent case occurred in 2020 or 2021, but he knows it was not 2018. The administration still thinks that is achievable and possible if everything goes right, but if, for example, FERC certification or any of the NPA and NEB certifications are delayed - regulatory and logistical things could slow the project. One of the major concerns their technical team had was in the ability to deliver the components of the GTP on a sealift vessel due to the constraints in the seasonal opportunity for delivery up to Prudhoe Bay. If you don't make the barge, you don't lose a day for a day, you lose six or nine months. So there are logistical challenges on top of the regulatory challenges. So, it's not that they have new information; they just have recognized that you set a schedule, you work it, but the exact date that gas is delivered is "uncertain."

If Southcentral Alaska is going to have all the gas that it needs until 2016, that presents a certain set of challenges. If it has all the gas it needs until 2022, it's a different question fundamentally. A lot of the work that Mr. Noah has identified as being necessary over the next year is to identify what Cook Inlet already has in its known fields. That is work the Division of Oil and Gas is working on. They are also working on assessments of what it would cost to explore for, find, and

develop new fields in Cook Inlet - and what that cost ultimately would be and what sort of schedule might be possible.

12:16:42 PM

The needs of Southcentral have to be identified before a supply of gas can be found that would go through a pipeline that leads to Southcentral, which is a constrained market, not a liquid market. Southcentral has a smaller market that gets tied up contractually for periods of time, and so the opportunity to place gas is a bit of a challenge. Nevertheless, they think that the reserves in Southcentral are able to produce for some time; they just need to understand at what rate they can produce and how that meets up with daily demand, particularly the winter peaks.

SENATOR KOOKESH said he would appreciate it if they could spend their time on the bill and the changes that are in it.

12:19:43 PM

HAROLD HEINZE, Executive Director, Alaska Natural Gas Development Authority (ANGDA), supported SB 135. He wanted to amplify a few things that Mr. Balash touched on. Number one ANGDA didn't come into existence until 2003, and one of the first things they did was draw a diagram that illustrated the benefits to Alaskans. ANGDA was formed out of frustration over two things; the fact that nothing was happening on the pipeline, and two, even if something did happen on the pipeline, most of the people in the state felt it would not necessarily benefit them. So they drew a chart that identified what they saw as the potential benefits that an ANGDA as a public corporation of the state could deliver to the citizens. That chart hasn't been changed. It's not a simple chart; it's a big pipeline system with gas to electric power, barging LPG fuel on the Yukon and local gas distribution to Fairbanks, and a spur line from Glennallen into Cook Inlet and maybe petrochemicals. The reason those are on the chart is they thought that NS gas was not a simple issue of going from point A to point B for instate use. It was a system; and the ballot measure language describes the design and construction of "the pipeline system". It didn't say "of the pipeline."

MR. HEINZE said they constantly ask themselves where the best opportunities are for ANGDA to contribute to the benefit of the people and where can they offer solutions for the biggest gas issues. They have found that one of their roles is to keep options open.

MR. HEINZE said when you go to bankers in New York, you have to have clarity. This bill provides clarity. The board's Authority is clear in statute. Article 8 of the Constitution specifies the legislature as the body that makes policy on that resource development. In that case, he welcomed legislative interaction through this bill. He urged them to keep all the options available that provide benefits to Alaskans.

[12:26:15 PM](#)

SENATOR WIELECHOWSKI asked if he sees this changing his ability to work with Enstar on developing a bullet line.

MR. HEINZE replied that ANGDA would release the final version of a report on public/private partnerships next Wednesday. Last July they were challenged to see if they could work in a public/private partnership. It turns out that there probably isn't a strong basis for either of them to do that. Enstar should be allowed to move forward with whatever it wants to do. The challenge for ANGDA is to develop financing ideas to help them achieve a public benefit in the long run.

[12:29:15 PM](#)

PAUL FUHS, representing himself, supported SB 135. He is one of the original drafters of the initiative and it was an oversight to not include the other regions. They didn't intend to exclude anyone. He said the Red Dog and Donlin Creek mines' biggest issue is getting fuel, and the idea is that they could be anchor tenants for natural gas. Steven Haagenson considered this and said his main mission is really electricity, but based on Enstar numbers he figured that the gas tariff would be about \$10 per thousand cubic feet. Right now they are paying about \$30 mcf for oil. When he helped write the initiative he wanted ANGDA to have the power to make something happen, but to also protect the consumer. But if ANGDA participates in something and provides tax exempt financing and savings to a developer, they are going to demand that be passed on to the consumer. "It's only right that that be done if they are going to step in." If the company they are working with wants to put all that money in their pocket rather than give it to the consumer, then there is no basis for a public/private partnership."

SENATOR KOOKESH asked if he has heard from anyone else about supporting it.

MR. FUHS replied he thought everyone would support it.

[12:33:47 PM](#)

MR. OSTNESS, representing himself, Cordova, [technical difficulties - indiscernible testimony].

[12:35:48 PM](#)

BILL WARREN, representing himself, Nikiski, supported SB 135. He wants a pipeline and since voting for the ANGDA initiative he thinks "we've got mired down in a lot of politics," although he thinks that ANGDA has done a "sterling job." Renewables will compliment a gas line, but those will take a while to phase in. He also strongly supported state oversight of in-state natural gas.

CHAIR MCGUIRE said SB 135 would be held for further consideration.

SB 162-HEATING FUEL ENERGY RELIEF

[12:41:32 PM](#)

CHAIR MCGUIRE announced SB 162 to be up for consideration.

[12:42:48 PM](#)

SENATOR PASKVAN, sponsor of SB 162, said this is a short term solution for a very serious issue in Interior Alaska, although this bill would apply to rural Alaska and to some extent Southeast and Southcentral Alaska. He explained that approximately 80 percent of rural Alaska and Interior Alaska use heating oil as their primary source of heat. He knows this legislation needs more work and he asked for their assistance.

SENATOR PASKVAN said Alaskans who rely on heating oil to keep warm during the winter need a specific short-term solution in addition to the many other promising long-term solutions that are being considered. SB 162 is a short-term solution; it would require the State of Alaska to offset heating costs over \$2.50/gallon when the price of a barrel of crude rises to the point where the state is enjoying a budget surplus. The state would pay the balance directly to the home heating distributors.

SENATOR PASKVAN said having a short-term solution in place, would free people to come up with a long-term solution, which will restore optimism about our economic future, protect families and businesses and allow them to concentrate on renewable and sustainable energy solutions for all of Alaska.

He said that SB 162 is easily administered. The dealers of heating oil as part of their current reporting requirements already report to the State of Alaska in a monthly form a

breakdown of the quantities of the various petroleum products that they sell and that does include the heating oil classification.

[12:45:32 PM](#)

He said the quantities of heating oil are verifiable and objectively determinable. SB 162 does not create a bureaucracy of paperwork or a massive government employment program to operate. And rather than distributing checks or debit cards to tens of thousands of individuals, the state would make a payment directly oil distributors.

SB 162 requires the consumer price of heating oil to increase each of the next three years to reinforce the need of Alaskans to conserve and to switch to alternative energies or to find the long-term solutions. His oil distributors won't go to a home unless they were delivering at least 100 gallons; if the consumer didn't have \$450, there would be no delivery. People were forced to go to the gas station with a five gallon gas can to get diesel to try to make it through a minus-50 degree night. Many Fairbanks people were on the verge of freezing in the dark because of the \$4.50/gallon price. And when winter ended, the distributors' accounts receivable levels were at unsustainably high amounts. If prices had not gone down, they would have not been able to enter this last winter by providing any credit to the consumers, because they couldn't afford losing their business. He said the average 1,400 square ft. home cost about \$5,000/year to heat as compared to about \$1,200 if the person was on natural gas. It's also important to understand that in Interior Alaska the per capita income is 20 percent below the national average. The entire Interior Alaska could not afford to stay in the situation for another year.

SCOTT RUBY, Manager, Division of Operations, Department of Commerce, Community and Economic Development, said he was available to answer questions on SB 162.

CHAIR MCGUIRE said she liked the approach in this bill rather than money being sent out as happened last year, and said she would work with him during the Interim on refining the language. SB 162 was held in committee.

[12:51:40 PM](#)

Finding no further business to come before the committee, Chair McGuire adjourned the meeting at 12:51 p.m.