

**ALASKA STATE LEGISLATURE  
SENATE RESOURCES STANDING COMMITTEE**

March 22, 2010

3:39 p.m.

**MEMBERS PRESENT**

Senator Lesil McGuire, Co-Chair  
Senator Bill Wielechowski, Co-Chair  
Senator Charlie Huggins, Vice Chair  
Senator Hollis French  
Senator Bert Stedman  
Senator Gary Stevens  
Senator Thomas Wagoner

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Jay Ramras  
Representative Mark Neuman  
Representative Tammie Wilson

**COMMITTEE CALENDAR**

SENATE BILL NO. 228

"An Act providing for an industrial incentive investment tax credit and including a gas- to-liquids facility as an eligible investment; and providing for a production tax limit on gas used as a raw material for producing liquids or petrochemicals from gas in the state."

- MOVED CSSB 228(RES) OUT OF COMMITTEE

SENATE BILL NO. 287

"An Act amending the powers and duties of the Alaska Railroad Corporation and the Alaska Housing Finance Corporation related to the exercise of authority to purchase, transport, and sell natural gas produced on the North Slope for in-state use, and transferring exclusive and primary responsibility for the initiation and development of that project from the Office of the Governor and the Department of Natural Resources to those corporations; and providing for an effective date."

- MOVED CSSB 287(RES) OUT OF COMMITTEE

SENATE BILL NO. 294

"An Act repealing the termination date of the licensing of sport fishing operators and sport fishing guides; and providing for an effective date."

- SCHEDULED BUT NOT HEARD

SENATE RESOLUTION NO. 10

Supporting expansion of the use of domestic natural gas and alternative energies and urging agencies to use vehicles that run on compressed natural gas.

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 228

SHORT TITLE: TAX INCENTIVES FOR GAS-TO-LIQUID

SPONSOR(s): SENATOR(s) MCGUIRE

01/19/10	(S)	READ THE FIRST TIME - REFERRALS
01/19/10	(S)	RES, FIN
02/08/10	(S)	RES AT 3:30 PM BUTROVICH 205
02/08/10	(S)	Heard & Held
02/08/10	(S)	MINUTE(RES)
03/18/10	(S)	RES AT 3:30 PM BUTROVICH 205
03/18/10	(S)	Heard & Held
03/18/10	(S)	MINUTE(RES)

BILL: SB 287

SHORT TITLE: IN-STATE GAS PIPELINE

SPONSOR(s): SENATOR(s) MCGUIRE

02/22/10	(S)	READ THE FIRST TIME - REFERRALS
02/22/10	(S)	RES, FIN
03/18/10	(S)	RES AT 3:30 PM BUTROVICH 205
03/18/10	(S)	Heard & Held
03/18/10	(S)	MINUTE(RES)
03/22/10	(S)	RES AT 3:30 PM BUTROVICH 205

BILL: SB 294

SHORT TITLE: SPORT FISH GUIDE LICENSES

SPONSOR(s): SENATOR(s) MCGUIRE

02/24/10	(S)	READ THE FIRST TIME - REFERRALS
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02/24/10 (S) RES, FIN  
03/18/10 (S) RES AT 3:30 PM BUTROVICH 205  
03/18/10 (S) Scheduled But Not Heard  
03/22/10 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SR 10

SHORT TITLE: DOMESTIC NATURAL GAS & ALT. ENERGY  
SPONSOR(S): SENATOR(S) WAGONER

02/22/10 (S) READ THE FIRST TIME - REFERRALS  
02/22/10 (S) RES  
03/22/10 (S) RES AT 3:30 PM BUTROVICH 205

**WITNESS REGISTER**

PAUL METZ, Director  
Mineral Industry Research Laboratory  
University of Alaska  
Fairbanks, Alaska

**POSITION STATEMENT:** Presented: The Key to Energy Security:  
Converting Coal to Gas to Synthetic Fuels to More Petroleum  
Production for SB 228 and offered to answer questions on SB 287.

MIKE PAWLOWSKI  
Aide to Senator McGuire  
Alaska State Legislature  
Juneau, AK

**POSITION STATEMENT:** Commented on SB 287 for the sponsor.

RALPH SAMUELS, resident  
Fairbanks, AK

**POSITION STATEMENT:** Commented on SB 287.

JOHN BINKLEY, Chairman  
Alaska Railroad Board (ARRC)

**POSITION STATEMENT:** Supported SB 287.

TIM SHARP, Business Manager  
Alaska District Council of Laborers

**POSITION STATEMENT:** Supported Amendment 2 about project labor  
agreement in SB 287.

MIKE LITTLEFIELD  
Teamsters Local 959

**POSITION STATEMENT:** Supported Amendment 2 about project labor  
agreements in SB 287.

VINCE BALTRAMI, President  
Alaska AFL-CIO,

**POSITION STATEMENT:** Supported Amendment 2 about project labor agreements in SB 287.

MEREC PIERCE, board member  
Alaska Gasline Port Authority (AGPA)  
**POSITION STATEMENT:** Supported SB 287.

#### **ACTION NARRATIVE**

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**CO-CHAIR LESIL MCGUIRE** called the Senate Resources Standing Committee meeting to order at 3:11 p.m. Present at the call to order were Senators French, Wagoner, Huggins, Stevens, Wielechowski, Stedman, and McGuire.

#### **SB 228-TAX INCENTIVES FOR GAS-TO-LIQUID**

[3:40:15 PM](#)

**CO-CHAIR MCGUIRE** announced SB 228 to be up for consideration. [CSSB 228(RES), 26-LS1324\P, was before the committee.] She said in preparation of SB 228 they would hear first from Paul Metz.

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**PAUL METZ**, Director, Mineral Industry Research Laboratory, University of Alaska, Fairbanks, Alaska, did a presentation called "The Key to Energy Security: Converting Coal to Gas to Synthetic Fuels to More Petroleum Production." He said this presentation was not on behalf of the Laboratory but it was approved by the University. He said he would look at Alaska's energy challenges, look at the alternatives for developing an energy plan, discuss the subject of coal to synthetic gas and converting it to liquid fuels, discuss carbon dioxide enhanced oil recovery, and present some alternatives for financing these megaprojects, discuss how to get these products of these resources to markets via the Alaska Railroad, and summarize the synergistic effects of these major energy projects.

He began with Alaska's Energy Challenges. Alaska has decreasing oil production and revenues from the North Slope, decreasing natural gas production in Cook Inlet, and increasing federal and state regulations that increase incentives to find and develop more natural oil, natural gas and coal, in particular, the increasing federal and state regulations that increase the cost of petroleum refining and will increase with climate change and

carbon capture and storage, alternate and lower cost sources of supply of natural gas to the contiguous states that place the large diameter natural gas pipeline in question, and highly fluctuating energy cost as a function of the world-wide demand for petroleum - natural gas being priced as a function of the market price of petroleum. Finally, the combined and negative effects of these costs and limited fuel supplies on the air cargo industry in Anchorage, in particular, and the transportation and tourist industries in general.

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MR. METZ said the key to developing a plan that provides cost effective and stable energy supplies and energy security for Alaska and the nation includes a public private partnership between the state, the federal government and the various industries that facilitate the full utilization of our coal natural gas and petroleum resources. Our fossil fuels are and will remain major sources of energy for the foreseeable future.

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The resources are: natural gas - about 26 tcf of proven reserves on Kuparek and Prudhoe Bay fields, about 9 tcf at Pt. Thomson; for a total of 35 tcf that will provide about 23 years of supply for a 4.5 bcf/day natural gas pipeline. Most gas pipelines are designed for a 30-year life or longer. So, additional resources would have to be found on the North Slope to support even a 4.5 bcf/day pipeline.

CO-CHAIR MCGUIRE asked if the state has data on gas hydrates potential.

MR. METZ replied no; these are reserve estimates. Resources such as gas hydrates, coal bed methane, synthetic gas from coal are potentially useful to humans, but aren't measured quantities under current economic conditions. The gross value of the measured reserves at various prices of natural gas range from \$200 billion \$500 billion.

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By comparison, he said, about 67 billion barrels (BB) of oil were in place on the North Slope when the TAPS pipeline came into production; an expected total recovery without enhancement is about 22 BB. That leaves about 45 BB of oil in place when and if the pipeline is shut down before enhanced oil recovery is put into action. The gross value of recovering 8 BB of additional oil through enhanced oil recovery methods is \$1.1 trillion, much

larger values than the proven reserves of natural gas on the North Slope.

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MR. METZ said by comparison, the coal resources that are widely distributed in Alaska, are immense. The USGS estimates that the western end of Arctic Slope of the Brooks Range the North Slope contains an estimated 5.5 trillion tons of high unit value coal. The magnitude of this resource is if we could convert our domestic requirements for electricity into 100 percent-coal, Alaska could generate the electrical demand for the United States for about 2500 years. If we converted all of our liquid fuel demand (23-million barrel/day consumption) of oil to coal as well as generated all of our electricity with coal, the western Arctic would still have enough coal to supply the U.S. for about 1000 years. In addition to the western Arctic another estimated 3 trillion tons of deep coal is in the Cook Inlet Basin and smaller coal resources in the Upper Susitna Valley and the north flank of the Alaska Range. The values at various prices per ton of coal dwarf the estimated resource values for the oil and gas measured in thousands of trillions of dollars.

Mr. Metz said the gas reserves on the North Slope contain about  $3 \times 10^{16}$  btus, oil in place contains  $4 \times 10^{17}$  btus, and the coal resources have  $2 \times 10^{20}$  btus, ten-thousand times the energy contained in natural gas.

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He posed the question of whether these energy sources are competing or have synergisms in looking at some aspects of the instate gasline - a coal-to-liquids plant, for instance (the Fairbanks example has some conceptual engineering design and numbers for a project that was advocated by the Fairbanks Economic Development Corporation) and enhanced oil recovery through the use of the CO<sub>2</sub> that would be produced from a synthetic fuels plant.

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He stated that the Cook Inlet Basin has supplied Anchorage with electrical generation and domestic and commercial heating for three-plus decades. Shortages are expected by 2015 during peak demand periods. The Department of Energy estimates it would take capital investment of \$5-6 billion to replace the original 3 tcf in Cook Inlet. But the difficulty with the whole natural gas market in the state is the low quantities that both Fairbanks and Anchorage would actually require and the fact that bringing it from the North Slope is a large capital investment.

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For the sake of having numbers, Mr. Metz said, the Enstar bullet line (bringing gas to Fairbanks, Anchorage and potentially to export from is estimated to cost \$3.8 billion for 24 in. 0.5 bcf/d from either the Gubik field (dry gas) on the North flank of the Brooks Range or alternatively from the Prudhoe Bay field that has wet gas that would require investing in a conditioning plant. Anadarko's estimated it would cost \$1 billion for delineating sufficient resources in the Gubik field. Taking the large diameter gas line and scaling a \$6-plus billion conditioning plant to a size to handle 0.5/day would cost about \$1 billion. Because of the limited market and the high capital cost he thought it would cost significantly more than \$3.8 billion to build. There needs to be a large domestic or international industrial user of the excess gas from 0.5 bcf/d line. A coal-to-liquids plant as envisioned by Fedco could actually use all of the gas in an instate gas line if the project were up-scaled.

CO-CHAIR WIELECHOWSKI asked how much it would cost to expand that to 1 full bcf/d and if it is better to build a 500 mcf now and expand it later or is it better to build bigger now.

MR. METZ replied that there is insufficient market today for the 0.5 bcf/d and to build a larger plant than that and have it idle for a considerable period of time is not a good return. He said the Fedco project looked at a 40,000 barrel/day plant with a capital cost of \$4.6 billion. That has been revised down to \$3.2 billion. The products in that plant would be Jet A and diesel at a production cost of about \$2.60/gallon. That plant at that scale was estimated to return about 12 percent on the capital, but in 2008 prices of diesel went up to \$5/gallon.

CO-CHAIR WIELECHOWSKI asked where they projected building this plant.

MR. METZ replied somewhere in the Interior. This is a preliminary design only. The money that was provided initially for the Air Force was to site the plant at Eielson Air Force Base, but for a number of reasons that won't happen.

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SENATOR WAGONER asked what they would do with the CO2 emissions.

MR. METZ replied that he is proposing to use that for enhanced oil recovery on the North Slope.

SENATOR WAGONER said for that to happen the plant would have to be closer to the North Slope.

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MR. METZ replied no; a pipeline would be built to the North Slope. He said for every ton of coal you burn you get about 3.5 tons of CO2 and that could be considered a bad thing, but it is good in terms of enhanced oil recovery. In 2005 the Department of Energy did an analysis of enhanced oil recovery potential on the North Slope as well as the potential in the Gulf of Mexico and found about 8000 kilometers of CO2 pipeline to the Mississippi Valley bring CO2 to the offshore oil fields in the Gulf. Some of the fields in the Gulf of Mexico as well as the North Slope are amenable to miscible CO2 injection and enhanced oil recovery. Cook Inlet is not, but the resource on the North Slope at 45 billion barrels is very large.

CO-CHAIR MCGUIRE asked the difference in recovery rates between CO2 and gas as a mechanism for lifting up the oil.

MR. METZ replied injecting CO2 or natural gas changes the physical and chemical characters of the oil. The CO2 decreases the viscosity, increases the volume of the fluid and adds pressure to the reservoir before it becomes miscible. Methane injection reduces viscosity, too, but the CO2 enhancement is much more effective.

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CO-CHAIR MCGUIRE asked why injecting CO2 as an enhanced oil recovery technique is not possible in Cook Inlet.

MR. METZ responded that oil is not amenable to miscible injection of CO2. The CO2 will not form a single phase in the oil when it's injected at high pressures, therefore you don't get the reduction in viscosity or the increases in volume that you do on the North Slope or in the Gulf of Mexico.

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(Slide 9) He said the operators on the North Slope have experimented with this, but the problem is it has insufficient CO2 at about 10 percent. That is part of the reason for the conditioning plant - to remove the water as well as the CO2 from the natural gas. But even if they were producing at 4.5 bcf/d they would still have 1/10 of the CO2 that would be necessary for enhanced oil recovery. That is where the coal-to-liquids plant comes in. Scaling the 40,000 barrel/day plant up to what

the oil industry feels is a minimum plant size for synthetic fuels of 200 barrels/day would produce about 1 tcf/year of CO<sub>2</sub>. That is what the DOE estimated would be the requirements for recovery of 8-12 BB of oil. The DOE estimated that in addition to the large volume of CO<sub>2</sub> you would had to have it at a reasonable price, and it was estimated at 5 percent of the wellhead price of oil. At that time they were looking at \$25/barrel.

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He provided an extract of the rates of return (ROR) from the sale of CO<sub>2</sub> from a 200,000 barrel/d plant at 5 percent of the wellhead price of oil at various prices. Adding this to the 1/8 royalty resulted in very large numbers. Nothing else would generate this kind of income and return for the state.

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CO-CHAIR WIELECHOWSKI asked if these figures include the cost of piping it to North Slope.

MR. METZ replied it is just from the direct sale by the plant assuming that a prudent North Slope producer would engage in the capital investment to build a pipeline that could deliver 1 tcf/yr. to the North Slope. He added that CO<sub>2</sub> is very compressible compared to methane and he estimated \$2.5-3 billion for that. The price of CO<sub>2</sub> within 5 percent of the wellhead price would make that investment very attractive to the oil industry.

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Slide 12 showed the financing for a coal-to-liquids plant anywhere in Alaska. The plant would use about 17 million tons of coal a year or 10 times what the Usibelli Coal Mine produces today. Delivering the 1 tcf of CO<sub>2</sub> to the North Slope and the recovery of additional oil at simply a 1/8 royalty at \$80/barrel oil would bring \$100 billion to the state in royalties (equivalent to the amount of taxes in total that the state has recovered from North Slope oil production since 1977). At 12 BB that increases to \$120 billion. In addition, the state would receive royalties on the coal that is produced whether it goes into gasification or into a plant.

MR. METZ said an added synergism for the Susitna hydro project is adding the ability for it to generate hydrogen and oxygen from the electrolysis of water rather than using steam to convert the coal to methane which would greatly reduce the capital cost of the coal-to-liquids plant. At 200,000

barrels/day, Hatch proposed a coal-to-liquids plant that would use 2000 mgw (120 mgw more power than Susitna). The beauty of this alternative is that once the need for CO2 on the North Slope was achieved oil production would taper off and the coal-to-liquids plant could be operated with hydrogen and oxygen from the electrolysis of water. The result would be a zero CO2 emission coal-to-liquids plant, which would then produce liquid fuels with lower total carbon emissions than refined petroleum. "So, there is a great synergism between having a low-cost source of electrical energy and liquids fuels production."

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CO-CHAIR WIELECHOWSKI asked if he envisioned mining the coal and then converting it or doing underground coal gasification.

MR. METZ replied that underground combustion is far more attractive. It would lower the capital and operating cost of the coal-to-liquids plant - producing coal gas and then conditioning that and transporting it to a plant at some location.

CO-CHAIR WIELECHOWSKI asked how much CO2 could be captured with this process.

MR. METZ replied that they would be looking at 70-80 percent recoveries, but the existing technologies are expensive and capital intensive and he didn't know the exact answer. The DOE is spending a lot of money on research in that area and that technology is changing very quickly, however.

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He summarized that the synergisms between a coal-to-liquids plant and enhanced oil recovery has the potential of extending the life of the North Slope oil fields for another 30 years, replacing Cook Inlet natural gas with North Slope gas to both Anchorage and Fairbanks, and supplementing the petroleum production from North Pole with low sulfur synthetic fuels. Availability of markets outside of Alaska would not be an issue with respect to an instate gas line.

The price of coal is not tied to the price of petroleum, so it would have less fluctuation than the price of synthetic Jet A and diesel as compared to petroleum derived products. There would be long term stable fuel supplies for the military both in state and in the Pacific Rim, there would be stable prices for the air cargo and other transportation industries in Alaska, which would anchor those industries here.

MR. METZ said that last Friday the Department of Defense announced that the Defense Energy Supply Center and the Air Transportation Association of America had signed a cooperative agreement for a public private partnership to develop synthetic fuels, which they have been saying for the past year needs to happen.

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CO-CHAIR MCGUIRE said that this presentation pertained to two bills, SB 228 and SB 287, which incentivize these kinds of plants through two different methods. The first is SB 228 the Special Investment tax credit and the other is the amendment to ACES clarifying that gas used in the state as a fuel or feed stock in the manufacturing process creating an end product in the state shall be considered as instate gas at the instate gas rate. And there is the potential for ARRC bonds to be used as a part of the financing for a project like this.

Finding no further comments, Co-Chair McGuire closed public testimony.

CO-CHAIR WIELECHOWSKI stated that the more he learns the more he thinks a gas-to-liquids plant or a coal-to-liquids plant or several of them are critical for Alaska's future; they create anchors for the bullet line and provide the opportunity for enhanced oil recovery and creating whole new industries. Experts have estimated that creating one plant could create 650 new full time jobs, not to mention 10-15,000 construction jobs. It would help protect our military bases and provide heat sources for generating 350 mgw power plants. He moved to report CSSB 228(RES), version P, from committee with individual recommendations and attached fiscal note(s). There were no objections and it was so ordered.

CO-CHAIR MCGUIRE noted that she talked to a Sassol representative in Houston who confirmed they had looked at Alaska for two decades and sadly, the reason they hadn't done more here is they consider Alaska to have an unattractive business climate.

### **SB 287-IN-STATE GAS PIPELINE**

[4:16:28 PM](#)

CO-CHAIR MCGUIRE announced SB 287 to be up for consideration.

MIKE PAWLOWSKI, aide to Senator McGuire, sponsor of SB 287, said that the committee substitute (CS) 26-LS1467\E was before them.

He explained there were some minor changes to bill and some fairly substantive ones, as well. The first change was to section 1 - the purpose and findings section. Changes were made to the language in some cases to dial back some of the findings to more reasonable levels and some were taken out to address how the bill and process envisioned in the bill would move forward with the changed effective date. In particular, he said he was referring to the transfer language from the administration to the ARRC. The original bill had a transfer of authority. With the movement to an effective date of July 1, the bill is now more of an authorization rather than a transfer. It acknowledges that the work under the administration is continuing and will be transferred to the ARRC as it becomes authorized to conduct and move an instate gas pipeline forward.

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The changes in section 2 (page 3, lines 19-20) were added to recognize that there may be other sources of gas. On page 4, line 1, the compatible but not competitive projects language added the AGIA project in AS 43.90. In section 4 the primary change was on page 4, lines 4-5, where (b)(1) establishes a subsidiary corporation for the ARRC. Also in section 4, lines 6-7, the word "acquisition" was used twice and this was a clerical cleanup that "authorization" seemed to be the more appropriate word.

The final substantive change was to page 4, lines 20-31, and page 5, lines 1-13 in the previous version where language covered the right-of-way issue. They worked with the Department of Law (DOL) on new language that is on page 4, lines 21 - page 5, line 6, that changes the way the right-of-way gets granted. Originally the land, itself, was transferred to the ARRC; the concept is the actual land transfer was unnecessary and created some cumbersome management issues in the event the project wasn't built. Sticking with a more traditional right-of-way transfer made more sense for the project.

MR. PAWLOWSKI said section 5 had relatively minor changes up to the final ones on page 6, lines 16-17. SB 287 envisions a process for cancelling the project and it seemed appropriate given that there are other efforts going on that language needed to be included that other circumstances could warrant the termination of this project.

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Finally, on page 6, lines 18-19, he said the manner in which the legislature would express terminating the project was designed as a concurrent resolution. In the original version the requirement was for the legislature to express that the project should be terminated. The question was how it would express that. He also mentioned a drafting error on page 6, line 20, where the words "immediately under" were supposed to be deleted. Legislative Legal apologized for the error. It would say this act takes effect July 1, 2010.

CO-CHAIR WIELECHOWSKI moved conceptual Amendment 1 on page 6, line 20, to delete "immediately under". There were no objections and it was so ordered.

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SENATOR FRENCH asked for an explanation of the new fiscal note.

MR. PAWLOWSKI said the ARRC could address that.

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SENATOR STEDMAN suggested focusing more on page 3, lines 29-31, that deals with compatible but not competitive projects. He thought that ANGDA was already set up to do that sort of thing and that the legislature should have a policy discussion about alleviating ANGDA of its duties and heading down another direction. Otherwise the state would continue having a fractured approach to the solution of getting gas.

CO-CHAIR MCGUIRE said that was a great point and she said that his committee could look at it more broadly. She explained that this weekend they broke out all the pieces that needed to be considered; one of the pieces was an evaluation of the financing and which entities are in place to bond and which entities may or may not wish to bond.

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MR. PAWLOWSKI said one of the concepts in talking to the administration and working through the issue internally is the separation between a pipeline and a shipper. In that ANGDA was working on aggregating demand through the Natural Gas Co-op, the idea was separating them out as part of a commercial working group that might purchase gas or might be a shipper of gas and the effort around the pipe. If they are co-mingled too much, that might raise issues with RCA about preferential treatment of shippers.

CO-CHAIR MCGUIRE said it is their goal and it is a position of distinction between Speaker Chenault and her that the ARRC should be the one looking at the building part. This shouldn't be competitive, but rather be compatible, with the efforts that ANGDA is currently undertaking and would undertake in the expansion of the HB 44 to look at gas supply and other things. She said she was amenable to clearer language.

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SENATOR HUGGINS said ANGDA had done a lot of work on propanes, infrastructure and distribution items, which is hugely important. In a larger sense, he anticipated that this bill and HB 44 would go through a metamorphosis and amalgamation.

SENATOR STEDMAN said not really; the issue is that he agreed with the direction, but they should close some doors behind them instead of coming up with more options. Ignoring ANGDA is politically easier to do, but that doesn't get them to a solution any easier.

CO-CHAIR MCGUIRE said that is the point of making the ARRC the exclusive agency for housing the work that has been done so far as well as continuing acquisition of rights-of-way and data. Do they want to eliminate any reference to ANGDA, page 3, lines 29-31? She said this was her early attempt to send a friendly olive branch to other body, to let them know they thought perhaps there was a role for ANGDA but in a different place - not as builder or assessor of planning, permits and coordination of building, but perhaps on the supply side.

SENATOR HUGGINS said he assumed the ARRC would organize the players.

CO-CHAIR MCGUIRE said she thought Senator Stedman was right.

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RALPH SAMUELS, Fairbanks resident, said he thought the instate line would get gas to Alaskans first and provide the economic growth for jobs. The Parks Highway, the last big piece of infrastructure to be built in Alaska, would have never been built if they had charged a toll. If it gets built everybody can tap off of it; things can develop from there. This is a piece of infrastructure that is appropriate for the state to build.

He stated that shale gas has changed the world fundamentally now. More than anything else Alaskans need to invest in themselves and move forward with the bullet line. It's the one

thing we can have complete control over. You don't need export licenses, AGIA, Denali, or the Canadians. A small leap of faith is needed that private sector investors would jump in with some of the mining and the LNG plant - but he was willing to take that leap of faith.

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JOHN BINKLEY, Chairman, Alaska Railroad Board (ARRC), said the success of the Railroad has not been dependent on one person or one boards of the years. They all help in making it successful. But the real success has been in the brilliance of the legislative body when they enacted the statutes that set the framework for the ARRC 25 years ago. It took an entity that has a very public purpose in serving the economic development aspects of Alaska, but doing it in a manner that is based on the principals of the private sector. When the ARRC looks at projects, it looks at the benefit to the public, but in a manner that is dependent on serving their customers and producing a profit to their bottom line.

The Railroad has a very unique bonding authority under the IRS code that allows a public entity to partner with a private entity to sell tax free bonds for a project. It was specifically written into federal law that the ARRC retain that ability while it was taken away from other entities. It gives an edge to projects by reducing the capital costs.

He explained that the third aspect of the Railroad is in the structure of its board of directors. It is made up of seven members: two are commissioners of the Alaska Department of Transportation and Public Facilities (DOTPF) and the Alaska Department of Commerce, Community and Economic Development (DCCED). The other members are one from labor, three representing each of the judiciary districts the Railroad runs through from Seward to North Pole and Eielson, the fourth is a private sector person at large. This is an entity that is well suited for the task outlined for the Alaska Railroad. The board has not discussed this as a policy matter, but he has had discussions with individual board members. They will meet on Thursday to discuss this specifically along with bringing on a new president and CEO.

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SENATOR FRENCH asked his view of the ARRC's relationship with ANGDA.

MR. BINKLEY said his opinion is that ANGDA has played an important role on this project to this point. They have done a tremendous job alone on moving propane ahead that will share the benefits of this resource beyond just the gas line grid from Prudhoe Bay to Homer to other areas of the state. It's critical that that happen; ANGDA has a critical role to play in that as well as other areas.

SENATOR STEDMAN said some people are concerned that we are not moving forward and there are too many captains on too many ships. He asked him to explain the Railroad's unique bonding authority.

MR. BINKLEY said it is similar to the building of the Valdez tank farm during the construction of the TransAlaska Pipeline (TAPS) when the City of Valdez did wrap-around bonds. The recourse of the bond went back to the owners of the TAPS project and the terminal facility in Valdez. It allowed Valdez to use the tax free bonds to provide a lower rate of interest for the project funding.

CO-CHAIR WIELECHOWSKI asked how confident he was that the IRS would allow issuance of these bonds.

MR. BINKLEY answered that you could not be 100 percent sure of that, but it is clear in statute. Their analysis shows that it is viable and it is codified in IRS law.

CO-CHAIR WIELECHOWSKI said the voters voted to enact ANGDA years ago to design and construct a pipeline that would bring North Slope gas to market. Which one is the best agency, ANGDA or ARRC?

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MR. BINKLEY replied that it is ultimately a policy call for the legislature, but the ARRC is well-suited for large projects. He wasn't so sure about ANGDA, although it has had a very important role in bringing projects to the point that they are. He didn't know their competencies in terms of actually constructing facilities or engaging in large scale projects.

SENATOR WAGONER said 63 percent of the people voted for ANGDA to do what they are talking about; the problem is every time they turn around, the legislature picks another approach to a pipeline. Two years ago Enstar came to his office and said they wanted to build the pipeline, and all they wanted was for the state to help them in the permitting process. Now this thing has

morphed back into the state building the pipeline. He understood the bonding capacity of the Railroad, but maybe everybody should make up their mind once and for all that AGIA is the state's chosen entity. Every time they get a head of steam going, the legislature jerks the money out from under them and they don't have enough money to do their job and they give it to somebody else. They should back ANGDA and maybe bring the ARRC in for its bonding capacity and get the people who know about gas pipelines in charge of the project.

Another point Senator Wagoner made is that everybody talks about fast-tracking this pipeline, but if one molecule is destined to go out of state, this pipeline has to go through exactly the same process as the big line. He wanted a timeline on this project, open season, FERC, the whole works.

4:55:16 PM

CO-CHAIR MCGUIRE responded that the Railroad isn't being asked to build the gas pipeline. They are trying to find a place to house the good work that Harry Noah started and Mr. Swenson has continued towards an instate pipeline should AGIA fail. She said the intensity started for her when AGIA passed. Many thought giving the governor tools to get a gasline was the right thing to do. Many were shocked when it came back with a single bidder. Some people felt that it was a sole source contract.

The real concern started from a group in the Instate Gas Caucus about the 500 mcf/d limit and realizing that was a "sweet spot" that people didn't want to give up. That is when the \$10 million amendment was put in to instate efforts as well - because that is important. Harry Noah was appointed and his team did great work. The Railroad is the only quasi-public entity that is building things in the state. She liked the fact that it's a private corporation bringing buyers and sellers together.

SENATOR HUGGINS said the governor had signed on with her concept of the Railroad. He also pointed out that not only does the Railroad have good people it will have a lot to gain from transporting construction materials and fuel.

5:01:08 PM

SENATOR WAGONER said there was more than one applicant in the AGIA process. As a matter of fact, many were disappointed that one other did not show up and make an application.

CO-CHAIR WIELECHOWSKI said he thought the legislature had to come to a conclusion in this issue this session. He had heard

that another organization that was looking at building an instate pipeline has said they are no longer interested because of uncertainty about whether or not the state is going to be involved.

MR. BINKLEY concurred with his comments.

[5:03:34 PM](#)

PAUL METZ, Director, Mineral Industry Research Laboratory, University of Alaska, Fairbanks, Alaska, said his previous presentation on SB 228 incorporated his comments with respect to the instate gas line. He said he would be happy to answer questions.

SENATOR FRENCH moved Amendment 2, labeled E.1.

26-LS1467\E.1  
Chenoweth

**AMENDMENT 2**

OFFERED IN THE SENATE

TO: CSSB 287(RES), Draft Version "E"

Page 4, line 13, following "work;":  
Delete "and"

Page 4, line 17, following "gas":  
Insert "; and"

(6) commit to negotiate, before construction of the natural gas pipeline project begins, a project labor agreement to the maximum extent permitted by law; if the corporation determines that the natural gas pipeline project is to be constructed by a private pipeline construction company or companies, the corporation shall incorporate the requirements of this paragraph into its construction contract agreement as a binding commitment applicable to the corporation's contractors; in this paragraph, "project labor agreement" means a comprehensive collective bargaining agreement between the corporation or, if construction is to be undertaken by one or more private pipeline construction companies, the corporation's contractor or contractors and the appropriate labor representatives to ensure expedited construction with labor stability for the natural gas pipeline project by qualified residents of the state"

CO-CHAIR MCGUIRE objected for discussion purposes. She said the issue of project labor agreements (PLA) is very important. They have meetings today with people who have strong views about it, and she hoped this debate could continue upstairs in the Finance Committee.

[5:05:47 PM](#)

TIM SHARP, Business Manager, Alaska District Council of Laborers, supported Amendment 2 that requires a project labor agreement. It would make sure Alaskans get the jobs on the proposed bullet line. Most projects of this size in Alaska have had project labor agreements; it's not new ground. Most state leadership has recognized the need for project labor agreements on projects. These agreements will make certain that Alaskans are trained and hired for the jobs first and laid off last.

He said that Commissioner Click Bishop, Department of Labor and Workforce Development (DOLWD), prepared a report on Alaska hire that indicated without project labor agreements things are continually getting worse in the oil fields and not better. It also means that real apprenticeship programs with track records of creating jobs and careers for Alaskans will be put strongly into play. PLAs also contractually insure Alaskan Native participation in the project.

MR. SHARP said they strongly support energy and gas development in the state, but at the end of the day, while the project is being built a PLA means the money will stay in Alaska because Alaskan participation is enforceable.

[5:08:35 PM](#)

MIKE LITTLEFIELD, Teamsters Local 959, supported Mr. Sharp's comments about project labor agreements. He said "We want to see Alaskans working on an Alaskan project."

[5:09:06 PM](#)

VINCE BALTRAMI, President, Alaska AFL-CIO, supported Amendment 2. He agreed with Mr. Sharp's comments saying there are tons of documentation that show PLAs are good business decisions, they determine predictability and planning construction, scheduling, labor needs and safety programs. Both AGIA and ANGDA have PLA requirements. The Building Trades Council has negotiated and worked under dozens of PLAs over the years; one of the recent big ones was a ground-based missile defense project in Shemya and Delta Junction. The management of those prime contractors, LaFleur and Bechtel, raved about how well the PLA worked on a real large project. It put over 1000 people to work, over 90

percent Alaska hire, 12 percent Alaska Native hire, and 17 percent minority hire - all the while training hundreds of apprentices who are now working as journeymen in their chosen fields, and without a hitch that job has been done on time and under budget.

MR. BALTRAMI said one thing they do know us that the workers on this project will be heavy and highway type construction workers, and 85 percent of those workers in the state of Alaska are represented by unions; 85 percent of the federally registered apprentices are actually in union apprenticeship programs. He said while there are tons of arguments in favor of PLAs there are usually only a couple against and a lot of them go back 30 years to a time when complaints were made about people coming up from outside of the state. But this generation of labor leaders has made a significant effort to make sure Alaskans will go to work first on these projects whether they currently belong to a union or not. Barriers to membership have been knocked down and it's real easy to get non-union people that are interested in going to work on a project like this signed up, tested and ready to go, so they are ready to have all the rights that a resident union would have before anybody would be able to go out on a job from the Lower 48. This is one of the common myths that is used quite a bit to bad mouth what is seen across the country these days as good public policy. He encouraged them to look at a website called Plaswork.org that has recent studies from Michigan State University and the University of Tennessee where experts in the field have debunked a lot of the myths surrounding PLAs.

SENATOR WAGONER said one of his worries with project labor agreements is out of state call ups versus instate hires, and he asked what they can do to assure the workers in the State of Alaska if they have a PLA that they would be called up first.

5:14:21 PM

MR. BALTRAMI answered that is one of the things labor leaders have worked on over the years. All the unions have certain referral procedures for when people go to work and in what order. He remembered that out-of-state workers used to be able to come up here and go to work if they met all the other requirements. But now referral procedures have changed to make sure that qualified Alaskan residents go to work before others from outside the state. A PLA is the only way to legally enforce any kind of a local hire.

Another thing Mr. Sharp mentioned was that the trend they have seen in the commissioner's report on resident hire definitely left something to be desired. It shows that this year more people are working in the oil fields than a year ago, but less Alaskans are working there. The logical conclusion is that too many people are coming and taking jobs. A PLA is the only legal means they have of assuring Alaskans get hired.

SENATOR WAGONER said he didn't answer his question. How can they assure that hiring Alaskans does actually take place?

MR. BALTRAMI answered that the project labor agreements language typically contains referral language that is in place in the local unions. He hadn't seen the amendment, but he would support language stating that the union referral procedures must take local hire into consideration.

[5:17:53 PM](#)

CO-CHAIR MCGUIRE said one of the common push backs on project labor agreements is that they will put more out of staters to work than Alaskans.

[5:19:07 PM](#)

MERREK PIERCE, board member, Alaska Gasline Port Authority (AGPA), said the one aspect of this bill that he finds slightly encouraging in the 66th year of pipeline discussions (the first gasline study was completed in 1954) is the rendition of the basic facts summarized in the legislative findings and purposes in section 1 of SB 287. Alaska does urgently need a diversified revenue stream and Alaskans need affordable energy. The problem with this bill is the extraordinary disconnect between the findings and the stated purpose. If they are going to make the case that we have a problem - an urgent need for both new revenue and affordable natural gas for Alaskans, why turn the gas pipeline over to a Railroad that soon will not have even a CEO? Why wouldn't the primary responsibility be invested in ANGDA, an organization with public support, with both the institutional knowledge and expertise, and the strong desire to see the all-Alaska gasline and spur line to Southcentral be built? Additionally, ANGDA is partnered with AGPA that also has a voter mandate and partners who are very interested in Alaskan LNG both for the West Coast of the United State as well as world markets.

The second problem with this bill relates to the first; if we urgently desire a gasline and expect to move forward with a real project after the failed open season and the scuttling of AGIA,

why waste time and effort studying a gasline down the Parks Highway that doesn't provide the lowest cost gas for Alaskan's, doesn't have EIS, doesn't have a right-of-way, it doesn't even deliver gas to the military bases, mines and small communities that need gas? The all-Alaska gasline as designed by YPC has a final environmental impact statement, an established right-of-way, economy of scale, delivers gas to military bases and a host of communities along its route that do not now have affordable energy.

CO-CHAIR MCGUIRE thanked him for his comments and focused attention back to Amendment 2.

[5:21:27 PM](#)

SENATOR FRENCH said that they heard that the last major project in Alaska had 90 percent Alaskan hire.

CO-CHAIR MCGUIRE said she supported project labor agreements; they work in general, but some folks are uncomfortable.

A roll call vote was taken: Senators French and Wielechowski voted yea; Senators Huggins, Wagoner and McGuire voted nay; so the amendment failed.

[5:24:22 PM](#)

SENATOR WAGONER moved conceptual Amendment 3 that for this project, only, puts the Railroad under the Executive Budget Act - just like ANGDA, AIDEA or anybody else. It's important that if the Railroad is going to be the focal point on building a pipeline and coordinating all these different agencies that they should be under the Act. That means they will be responsible to the legislature for the budgeting.

MR. BINKLEY responded that this goes to the heart of the brilliance of the legislation establishing the Railroad. This is what distinguishes the Railroad from any other state agency, and in his opinion, it is what has been at the heart of the success of the Alaska Railroad for the last 25 years. Any entity looks to its funding source for its direction; the Alaska Railroad looks to its customers and to profitability, not to a political body. This is the heart of the difference between the Alaska Railroad and the Department of Transportation and Public Facilities (DOTPF).

He said this would take away one of the most compelling reasons for why the gas pipeline should be housed within the ARRC. Exempting them from the Executive Budget Act means that they

respond to their customers instead of a political body. That is why they have been less political than other entity over time and have been successful in not relying on any state subsidy for moving the ARRC forward. It would be damaging for the Railroad's ability to respond to changes in the market and to business decisions that have made it successful over the years.

SENATOR WAGONER read the language from ANGDA: The revenue earned by operations of the Authority must be identified as a source of the operating budget of the Authority in the state's operating budget under AS 37.07. It's not as complicated as some think; but it at least gives some legislative control. This bill takes the governor and the legislature out of the picture, and he didn't want to go there with this project.

CO-CHAIR MCGUIRE pointed out that this bill requires them to make regular findings and milestone achievement reports to the legislature and the governor.

CO-CHAIR WIELECHOWSKI said he appreciated the amendment, but he would oppose it, because he thought part of the problem was too much legislative intervention.

SENATOR WAGONER agreed that it had been micro managed to death already, but his point is that a report is not oversight. They are talking about turning a big project over to the Railroad that doesn't even have a CEO right now.

CO-CHAIR MCGUIRE said she would oppose it also because of the reasons Mr. Binkley articulated. But she didn't expect any less of a new CEO than the excellent ones they had had.

SENATOR HUGGINS added that he will oppose the amendment, but would remain open minded. The legislature needs to be consistent. In his experience there are two organizations, the Railroad is one, that when they present they are organized, they're convincing, their numbers add up, and you go away saying "that is one efficient organization." He has great confidence in the Railroad and its structure.

SENATOR WAGONER asked if the Railroad thought about purchasing the Flint Hills refinery.

MR. BINKLEY answered no.

SENATOR WAGONER asked if it had been discussed at the board level.

MR. BINKELY answered that during the previous administration the governor said something about having the Railroad involved in some solution to making certain that the refinery remained in place and producing fuel for both the Interior and Southcentral, but there were never any negotiations.

SENATOR HUGGINS added that he was involved in that era and some administration people were advocating for it, but General Gamble had resisted it.

CO-CHAIR MCGUIRE asked for a roll call vote. Senators Wagoner voted yea; Senators Huggins, French, Wielechowski and McGuire voted nay; so Amendment 2 failed.

[5:36:38 PM](#)

SENATOR HUGGINS moved to report CSSB 287(RES) from committee as amended with individual recommendations and attached fiscal note(s).

SENATOR WAGONER objected. A roll call vote was taken: Senators Huggins, French, Wielechowski and McGuire voted yea; Senator Wagoner voted nay; so CSSB 284(RES) as amended moved from committee.

[5:39:52 PM](#)

CO-CHAIR MCGUIRE adjourned the meeting at 5:39.