

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON ENERGY**

March 29, 2011  
3:04 p.m.

**MEMBERS PRESENT**

Representative Neal Foster, Co-Chair  
Representative Lance Pruitt, Co-Chair  
Representative Bob Lynn  
Representative Dan Saddler  
Representative Pete Petersen  
Representative Chris Tuck

**MEMBERS ABSENT**

Representative Kurt Olson

**COMMITTEE CALENDAR**

HOUSE BILL NO. 197

"An Act recognizing the Alaska Housing Finance Corporation as the authorizing agency to approve home energy rating systems for the state; and providing for an effective date."

- MOVED HB 197 OUT OF COMMITTEE

OVERVIEW: UPDATE ON THE ALASKA STAND ALONE GAS PIPELINE

- HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 197

SHORT TITLE: HOME ENERGY RATING SYSTEM

SPONSOR(s): REPRESENTATIVE(s) PRUITT

03/16/11	(H)	READ THE FIRST TIME - REFERRALS
03/16/11	(H)	ENE, FIN
03/29/11	(H)	ENE AT 3:00 PM BARNES 124

**WITNESS REGISTER**

JEREMIAH CAMPBELL, Staff  
Representative Lance Pruitt  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced HB 197 on behalf of Representative Pruitt, sponsor.

JOHN ANDERSON, Weatherization Officer  
Alaska Housing Finance Corporation (AHFC)  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 197.

DAN FAUSKE, CEO/Executive Director  
Alaska Housing Finance Corporation (AHFC)  
Department of Revenue (DOR); President  
Alaska Gasline Development Corporation (AGDC)  
Alaska Housing Finance Corporation (AHFC)  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 197; provided a PowerPoint presentation titled, "Alaska Stand Alone Gas Pipeline/ASAP," and dated 3/29/11.

MARY ELLEN BEARDSLEY, Assistant Attorney General  
Commercial/Fair Business Section  
Civil Division (Anchorage)  
Department of Law (DOL)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the hearing on HB 197.

PAT LUBY, Advocacy Director  
AARP in Alaska  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 197.

JOE DUBLER, Vice President/Chief Financial Officer  
Alaska Gasline Development Corporation (AGDC)  
Alaska Housing Finance Corporation (AHFC)  
Department of Revenue (DOR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the PowerPoint presentation titled, "Alaska Stand Alone Gas Pipeline/ASAP," and dated 3/29/11.

#### **ACTION NARRATIVE**

[3:04:38 PM](#)

**CO-CHAIR LANCE PRUITT** called the House Special Committee on Energy meeting to order at 3:04 p.m. Representatives Pruitt, Foster, Tuck, Petersen, and Saddler were present at the call to order. Representative Lynn arrived as the meeting was in progress.

**HB 197-HOME ENERGY RATING SYSTEM**

3:04:50 PM

CO-CHAIR PRUITT announced that the first order of business would be HOUSE BILL NO. 197, "An Act recognizing the Alaska Housing Finance Corporation as the authorizing agency to approve home energy rating systems for the state; and providing for an effective date."

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JEREMIAH CAMPBELL, Staff, Representative Lance Pruitt, Alaska State Legislature, introduced HB 197 on behalf of Representative Pruitt, sponsor. Mr. Campbell stated HB 197 recognizes the Alaska Housing Finance Corporation (AHFC) as the state's Home Energy Rating System (HERS) authorizing agency for the purpose of approving home energy rating systems for use in the state. This legislation is needed because non-governmental, for-profit, third-parties are attempting to be identified in federal legislation as the HERS agency in the state, in order to control state policy on the issue, and to compete for funds that are available to the state. Alaska has made an investment in AHFC through its rating system software called AkWarm, and he opined it is appropriate for Alaska to run the program, and not a third-party. The AkWarm software has been used continuously since 1996, and is designed specifically for Alaska. In addition, AkWarm is directly tied to AHFC programs such as the home energy rebate and weatherization programs, interest rate reduction for home loans, and Alaska Building Energy Efficiency Standards (BEES). This bill would enable AHFC to ensure that any HERS utilized in Alaska would be appropriate for Alaska climates.

REPRESENTATIVE SADDLER asked what organizations are attempting to get certification and compete with AHFC.

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JOHN ANDERSON, Weatherization Officer, Alaska Housing Finance Corporation (AHFC), Department of Revenue, informed the

committee that currently the organization recognized by the Internal Revenue Service (IRS) and the U.S. Department of Energy (DOE) is the Residential Energy Services Network (RESNET).

REPRESENTATIVE PETERSEN noted DOE uses the Smart Home Scale, and the Environmental Protection Agency (EPA) uses Energy Star ratings, both of which are administered by RESNET. He asked whether the standards in Alaska would be equivalent, so that these programs would be recognized by AHFC.

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MR. ANDERSON confirmed that AkWarm is also recognized by DOE for AHFC's weatherization purposes in Alaska. He opined AkWarm is far more sophisticated than the other programs, and AHFC wants it to be the standard; in fact, AHFC has invested \$1 million in the software and upgrades since 1992. In addition, AHFC is developing a commercial model for its public facility building revolving loan fund.

REPRESENTATIVE PETERSEN surmised that the bill creates a new regulatory function for AHFC.

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MR. ANDERSON explained that AHFC has administered the program and authorized energy raters since 1992. Although independent software may be adequate, AHFC's stance is to require other programs to be equivalent to AkWarm.

REPRESENTATIVE PETERSEN asked whether the intent of the bill is to ensure that all federal funding available for energy rating programs goes to AHFC.

MR. ANDERSON clarified that the main focus is to protect the state's investment in the AHFC program. The federal government has named a for-profit private entity, but AHFC is experienced, and is leading the nation on residential energy efficiency.

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REPRESENTATIVE PETERSEN asked whether any municipal building codes will be affected by the bill.

MR. ANDERSON opined no, except for IRS tax credits, because AkWarm is not recognized by the IRS. He pointed out that IRS guidelines defer to the RESNET organization; however, this

legislation will help AHFC achieve IRS status. Once IRS status is achieved, Alaska homebuilders will be able to use AHFC AkWarm ratings to qualify for tax credits for building energy efficient homes.

REPRESENTATIVE SADDLER asked whether there are different energy rating systems, and for the purpose of authorizing agencies.

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MR. ANDERSON stated that an authorizing agency sets certain criteria for software to meet before it can be utilized. The RESNET organization provides information that is applicable to Alaska, but AkWarm is a superior product. In further response to Representative Saddler, Mr. Anderson said the software provides an energy analysis of a home by measuring the resistance to heat flow (R) value of walls, roofs, doors, windows, and heating systems, and accounting for all of the energy use in a home, followed by a report for improvement options to raise a home to the building energy efficiency standard (BEES).

REPRESENTATIVE SADDLER asked whether the bill sets the agency or the standard.

MR. ANDERSON said the bill gives AHFC the authority to set standards in its regulations.

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DAN FAUSKE, CEO/Executive Director, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), called attention to the fact that AHFC is nationally renowned in this issue, and must ensure Alaska's right to regulate what comes into the state. He predicted that as the economy improves, other mortgage companies will return to Alaska and use different software with lower standards of weatherization; the intent of the legislation is to prevent the federal government from mandated changes to a program in which the state has invested \$360 million. Alaska Housing Finance Corporation wants to see a benchmark for regulations on rating systems.

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CO-CHAIR PRUITT asked how this situation would impact a contractor.

MR. ANDERSON said a contractor does not need to do anything new right now. However, proposed federal legislation - known as Home Choice - names RESNET as the governing body of home system software. As a matter of fact, the Home Choice program mimics AHFC's home energy rebate program, and the only problem is that for Alaska, it creates the threat of competing HERS software that does not meet AkWarm standards. He pointed out that the AkWarm software database is free to contractors, but others are not.

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CO-CHAIR PRUITT surmised the bill should streamline mortgage applications and energy programs.

MR. ANDERSON said correct.

MR. FAUSKE reminded the committee that BEES is state law, and AHFC cannot purchase a mortgage unless an improvement meets BEES; therefore, if new software is introduced in Alaska with a lesser standard, AHFC's status in the housing industry is weakened.

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REPRESENTATIVE PETERSEN asked whether federal legislation on this issue would take precedence over Alaska's AkWarm program.

MR. ANDERSON indicated yes, and agreed with Representative Petersen that AkWarm should be adopted as the federal standard.

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REPRESENTATIVE SADDLER affirmed that HB 197 would give AHFC the sole authority to decide whether a particular energy rating software can be used in Alaska.

MR. ANDERSON said correct. In further response to Representative Saddler, he confirmed that AHFC will only use AkWarm, unless a better program is developed. In response to Representative Petersen, Mr. Anderson said AHFC has unsuccessfully attempted to get an exclusion clause from the IRS.

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REPRESENTATIVE TUCK questioned whether the bill applies only to energy rating software and not to energy rating procedures, "above and beyond software."

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MR. ANDERSON opined the bill refers to the system because there is a training component and monitoring of the energy auditors and raters.

MARY ELLEN BEARDSLEY, Assistant Attorney General, Commercial/Fair Business Section, Civil Division (Anchorage), Department of Law (DOL), agreed with Mr. Anderson that the software is the AkWarm program that has been copyrighted by AHFC, but the system is not just the program itself.

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REPRESENTATIVE TUCK compared this process to certificates of fitness issued by the Department of Labor & Workforce Development (DLWD) for electrical licenses. Because the program establishes an authority, and is more "than just reviewing software," he asked whether certificates will be issued to workers after training, and how individual contractors will be monitored and audited.

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MR. ANDERSON affirmed that AHFC authorizes energy raters and requires certificates that are renewed every three years; however, if a new entity enters the state, AHFC would review the new entity's entire process and software.

MR. FAUSKE added that AHFC is trying to protect consumers; in fact, 126 energy raters have been certified by the corporation. Although the raters are not employees of AHFC, they visit homes and offer advice; thus, a governing system is necessary, and AHFC has filled that role for several years.

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REPRESENTATIVE TUCK suggested that another software company may have a procedure that is more efficient. He asked whether a conflict would arise if a contractor applied for an IRS tax credit, but was not permitted to work in Alaska because AHFC's program is not approved.

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MS. BEARDSLEY restated that AHFC has submitted its application to the IRS to be an alternate agency. In fact, IRS regulations indicate that RESNET is the authorization entity, "or [that] an equivalent rating network" is acceptable. She said she was unsure of the outcome if the matter was referred to the court system.

MR. ANDERSON explained that at this time there are certified RESNET auditors in the state "that do some types of tax credits right now, on the residential ...." This would not change, but the bill helps get AHFC's software to the same status.

REPRESENTATIVE TUCK asked how the AkWarm software is superior, and for the difference between them.

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MR. ANDERSON reported that RESNET does not own software, but approves the software systems, and the four systems approved nationwide are mostly an "input point system" using blank fields that are filled with information from the home. In contrast, the AHFC program uses mathematic science to calculate the insulating properties of walls and windows, ventilation, and boilers. In further response to Representative Tuck, Mr. Anderson said AHFC's application process began eight months ago; in fact, AHFC received DOE's five-year approval to use AkWarm on single-family homes and duplexes, even though the IRS has not responded to its application for approval. He acknowledged that the federal Home Choice bill died, but he expected similar legislation to surface soon, and restated that AHFC would not disallow another rating system, as long as it is equivalent.

REPRESENTATIVE PETERSEN asked if there are consequences for the other rating companies; for example, whether the homes rated by them are eligible for the state weatherization or energy rebate programs.

MR. ANDERSON indicated there are no consequences; in fact, some builders are paying for an additional rating with the software approved by RESNET, in order to qualify for the IRS tax credit.

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PAT LUBY, Advocacy Director, AARP in Alaska, informed the committee AARP has 93,000 members in Alaska, and wholeheartedly

supports AHFC. Mr. Luby said the weatherization and rebate programs have proven to be historic in that thousands of Alaskans have benefitted from the programs. He relayed a story of how successful energy improvements to homes are, with the resulting lower utility bills showing that energy is being saved. Mr. Luby expressed AARP's support of HB 197, for the benefit of consumers.

REPRESENTATIVE TUCK agreed that the energy programs are beneficial; however, he questioned how the bill will expand or provide better service to consumers.

MR. LUBY said AARP does not have the expertise to determine that, but the testimony today indicated there is a problem with the IRS.

CO-CHAIR PRUITT closed public testimony.

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CO-CHAIR FOSTER moved to report HB 197, 27-LS0628\A, out of committee with individual recommendations and the accompanying fiscal note. There being no objection, HB 197 was reported from the House Special Committee on Energy.

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The committee took an at-ease from 3:39 p.m. to 3:43 p.m.

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Update on the Alaska Stand Alone Gas Pipeline **Overview: Update on the Alaska Stand Alone Gas Pipeline**

[3:44:11 PM](#)

CO-CHAIR PRUITT announced that the final order of business would be an update on the Alaska Stand Alone Gas Pipeline by the Alaska Gasline Development Corporation.

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DAN FAUSKE, President, Alaska Gasline Development Corporation (AGDC), Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), advised that monthly reports on this project are sent out to the legislative body and the final report is due on 7/1/11. He began a PowerPoint presentation titled, "Alaska Stand Alone Gas Pipeline/ASAP," and dated 3/29/11. Slide 2 was

AGDC's organization graph of the Joint In-State Gasline Development Team. Mr. Fauske said there have been recent proposed legislative changes to the original bill that formed the corporation, in order to address authority and possible conflict of interest issues between AGDC and the Alaska Natural Gas Development Authority (ANGDA). Slide 3 was AGDC's organization graph of Project Staff. He relayed the background experience of some of the staff, and that the mandated stakeholder meetings have been held in several locations to discuss the project. The project staff is small with no big bureaucracy. Slide 4 listed Project Management/Engineering as follows: Project Management, Hawk Consultants LLC; Engineering Services, Michael Baker Jr., Inc.; Legal Services, Birch Horton Bittner & Cherot; Project Pacing and Review, Independent Project Analysis; Facilities Peer Review, WorleyParsons. Slide 5 listed Environmental/Regulatory as follows: Environmental Services, ASRC Energy Services (AES); Third Party EIS, Cardno ENTRIX; Regulatory Advisor, Stoel Rives LLC. Slide 6 listed Financial as follows: Financial Advisor, Citigroup/Ramirez; Tariff Modeling, Black and Veatch. Economic/Market Studies: Gas to Liquids, Hatch Associates Consultants, Inc.; Liquefied Natural Gas, Science Applications International Corporation (SAIC); Natural Gas Liquids, R. W. Beck Inc.

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MR. FAUSKE further advised that AGDC wanted access to a financial team so that it could study the tax-exempt status of the Alaska Railroad Corporation, bonds, and of financing structures. In addition, the financial team will be led by Joe Dubler, AGDC Vice President/Chief Financial Officer. He reviewed the credentials of the economic market studies contractors and said the economic studies on gas to liquids (GTLs), liquefied natural gas, (LNG), and natural gas liquids (NGLs) are nearing completion. Slide 7 listed State and Federal Agency Contracts as follows: Federal BLM, Federal Lands Right-of-Way; Alaska Department of Natural Resources, State Pipeline Coordinator's Office - Right-of-Way Lease; Alaska Department of Natural Resources, Cook Inlet Gas Report; Alaska Department of Environmental Conservation, Air Quality Permitting; Alaska Railroad Corporation, Right-of-Way, Crossing & Materials. A report from the Department of Natural Resources (DNR) on the economics of developing gas from Cook Inlet is expected to answer the question of whether to run a pipeline from the North Slope to Anchorage, or a pipeline from Cook Inlet to Anchorage and on to the central corridor. Other possibilities to consider are the importation of LNG and gas from the Alaska Gasline

Inducement Act (AGIA) pipeline. He assured the committee that recommendations in the July report will include hard data, a comparative analysis, and an analysis of Cook Inlet. He turned to the high cost of air quality permitting and pointed out that AGDC is in the process of negotiating agreements with other firms to share data and economize; as a matter of fact, data coming from other state agencies has been very good.

CO-CHAIR PRUITT asked how the proposed in-state right-of-way legislation impacts the natural gas pipeline.

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JOE DUBLER, Vice President/Chief Financial Officer, Alaska Gasline Development Corporation (AGDC), Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), said he would review the abovementioned proposed legislation.

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MR. FAUSKE said he was pleased with AGDC's schedule, although the environmental impact study was delayed. There are no bottlenecks, and there is cooperation from the federal government. Slide 8 was titled, "Cook Inlet Gas Production vs. Alaska Stand Alone Gas Pipeline Capacity," and showed that the project is designed for a capacity of 500 million standard cubic feet of gas per day (MMscfd) based on the agreements placed in HB 369. This capacity is within the limits set by AGIA, although the project could expand with the addition of compressors. Mr. Fauske recalled his statement last year that the project as it stands - spending billions of dollars running pipe over difficult terrain to supply gas to 400,000 residents - will not "pencil." With a source of gas, however, there is a possibility of attracting an anchor tenant. He cautioned that the lights cannot go out in Anchorage because there will be negative impacts throughout the state; moreover, building the project is a 50-100 year decision, and over the long-term with anchor tenants and development "the sky's the limit basically." Mr. Fauske stressed his intent to concentrate on being fiscally responsible and inventive in order to entice investors.

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CO-CHAIR PRUITT asked whether the project can be designed to expand above 500 MMscfd, and how the cancellation of AGIA would affect the project.

MR. FAUSKE observed that the success of AGIA is in the long-term interest of the state, and the work done on this project could be used to design a spur line to the AGIA gas pipeline. The present design could be expanded to a maximum of one billion standard cubic feet per day (Bscfd), which is far in excess of current demand. He relayed that with a long-term predictable supply of gas there is the potential to market gas to Japan, or to supply gas during the period of time before the AGIA pipeline is completed. Mr. Fauske said the final report will show all of the potential cost, and that design changes are still possible at that point.

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CO-CHAIR PRUITT asked for the origin of the gas supply to this project.

MR. FAUSKE indicated that the final source has not been determined, although the route shown in the presentation reflects gas from Prudhoe Bay. Other possible sources include imported LNG, gas from Cook Inlet, or gas from the AGIA pipeline. Anadarko's Gubik gas field is a source of gas that is mostly methane and needs less treatment than gas from Prudhoe Bay. He opined Gubik is a very promising reserve, but is not a dedicated source of gas. In further response to Co-Chair Pruitt, he confirmed that a cleaner gas affects the rate of the tariff.

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REPRESENTATIVE PETERSEN asked for the term of the bonds that would finance the project.

MR. DUBLER explained the length of the bonds is typically determined by the length of the gas contracts. At this time, most of Asia is buying gas on the spot market, thus terms would differ from the historical average of 10-20 years.

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MR. FAUSKE continued to slide 9 which was a list of the Project Features as follows: Design Capacity - 500 MMscfd (with NGLs); Mainline Pipeline; Fairbanks Lateral; Gas Conditioning Facility; Two Compressor Stations; NGL Extraction Plant; Gas Take-off Facility/NGL Straddle Plant. The Fairbanks Lateral is currently designed to be a 12-inch diameter line which would carry gas 38 miles to Fairbanks and supply about three to four times its

present demand. Although the gas supply to Fairbanks is included in the original legislation, excess capacity causes problems because of the cost of conversion and with the requirements of the Regulatory Commission of Alaska (RCA). He also explained his opposition to a route parallel to the Richardson Highway to Valdez due to the additional cost, and that the AGIA pipeline has the ability to export 3.5 billion feet of gas per day. Finally, Mr. Fauske restated his promise not to duplicate studies, and that the most economical route for this project is along the Parks Highway to Port MacKenzie and the existing pipeline system. The estimated cost for the gas conditioning facility is \$4 billion, and the analysis of the project must determine whether to treat the gas at Prudhoe Bay, or at a straddle plant near Fairbanks. Other project facilities are two compressor stations, a NGL extraction plant, and another straddle plant at the terminus of the pipeline.

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REPRESENTATIVE SADDLER asked whether the \$4 billion estimate assumes a more involved process for the treatment of gas from Prudhoe Bay, rather than of cleaner gas from the Gubik field or the foothills.

MR. FAUSKE indicated yes; in fact, the gas from Prudhoe Bay - in addition to the more complex process for the extraction of liquids - contains high volumes of CO<sub>2</sub> and hydrogen sulfide. Slide 10 was a chart that showed the proposed mainline is 737 miles long, with a 24-inch diameter pipe under 2,500 pounds per square inch (psi) maximum operating pressure.

CO-CHAIR PRUITT asked whether the community of Fairbanks is prepared to pay the high cost required to convert its infrastructure to use natural gas.

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MR. FAUSKE acknowledged that the conversion to natural gas will be expensive for Fairbanks and the nearby military bases. He opined this is money well-spent, if the new pipeline is sized for the present market. The market for gas that is currently trucked into the Fairbanks area serves 1,000 customers.

REPRESENTATIVE PETERSEN assumed the Flint Hills Resources North Pole Refinery would be interested in converting to gas.

MR. FAUSKE agreed that is under consideration by Flint Hills Resources.

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MR. DUBLER, referring to the conversion of infrastructure in Fairbanks, added that in the mid '80s, the Matanuska-Susitna Borough met initial resistance when that area converted to gas; however, residents are now happy with their long-term savings.

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CO-CHAIR PRUITT pointed out that Fairbanks is a mature community.

MR. DUBLER opined Fairbanks has the advantage of denser neighborhoods which will be less expensive to pipe. Outlying areas will be more expensive, and similar to the situation in the Mat-Su Borough.

MR. FAUSKE continued to slide 11, which indicated other project facilities: gas conditioning plant at Prudhoe Bay to remove carbon dioxide, hydrogen sulfide, and other impurities; two compressor stations including gas-turbine-driven centrifugal compressors and gas-turbine-driven electric power generators. Slide 12 listed other permanent facilities: Gas take-off facility/NGL straddle plant that will provide gas for Fairbanks by removing NGLs to provide dry gas for Fairbanks and reinjecting NGLs into the mainline; NGL extraction plant to remove NGLs for sale.

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MR. DUBLER stressed that this presentation was based on preliminary studies, and economic studies that have not been completed. Slide 13 indicated that the preliminary capital cost estimate for a pipeline and facilities with a flow rate of 250 million square cubic feet per day (MMscfd), spiked with NGL, is \$6.9 billion, or for a pipeline and facilities with a flow rate of 500 MMscfd, spiked with NGL, is \$8.4 billion.

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MR. FAUSKE cautioned that the numbers for the tariff rate are "just numbers that we developed off the map that we know." Slide 14 showed the proposed case with a rate of \$11.49 per thousand and a comparison date of July, 2010.

MR. DUBLER assured the committee that the projections available after July 2011 will be more refined.

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MR. FAUSKE presented slide 15 titled, "Transportation Tariff Comparison (July 2010)." The assumptions shown were: Debt/Equity, 70%/30%; Return on Equity, 11.31%; Cost of Debt, 6.76%; Capital and O&M Escalation, 3%; Contract & Depreciation Life, 20 years; Levelized Tariffs, Based on deterministic capital cost estimate. He warned that these are also subject to change, although the debt to equity ratio is established nationwide. Slide 16 indicated estimated the optimized tariff and cost of debt, based on November, 2010.

CO-CHAIR PRUITT asked whether the tariff to Fairbanks would be lower because of the shorter distance.

MR. FAUSKE said yes.

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MR. DUBLER said commercial financing options include the cost of debt, which depends on variables such as whether the Alaska Railroad tax exemption will apply. In response to Co-Chair Pruitt, he confirmed that the optimal structure for financing the pipeline will be part of the July, 2011 report. He then explained that the project timeline is set by engineers and is an important factor in preventing cost inflation. Throughput is an option that depends on the upstream gas that is available, and on the downstream customers, such as anchor clients. The final study on the marketing of liquids will also be part of the report due in July, 2011. An equity contribution by the state is under consideration, especially for the project to pencil.

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REPRESENTATIVE SADDLER asked for Mr. Dubler's definition of "pencil out."

MR. DUBLER responded that it would be a tariff amount that would supply gas at a reasonable rate that an average consumer could afford.

MR. FAUSKE relayed that there is an assumption that legislators will fund the project to keep prices about equal to current levels.

REPRESENTATIVE SADDLER surmised there is elasticity in the market.

CO-CHAIR PRUITT observed the project expects to be competitive with the cost of imported or Cook Inlet gas in the future.

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MR. FAUSKE affirmed the state has the resources to deal with this situation; in fact, this problem must be solved for the economics of - not just Anchorage - but the state. The challenge at this time is to find the best economic solution.

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MR. DUBLER returned to the commercial financing option of line-fill contributed by state royalty, and explained that there is a question of whether this option can be used for the initial line-fill.

MR. FAUSKE noted that the key commercial activities are: evaluate needs of anchor industrial users; find interested builder/owner/operators; optimize commercial interests and develop financing options. Because this is a megaproject, he envisioned the progression of the project will begin with an estimate of costs - for example, \$6 billion - but before bids from builder/owner/operators are requested, the state must spend 2-5 percent of the total project cost to validate the estimate with "hard numbers." Slide 19 indicated potential industrial users: natural gas liquids for export; gas to liquids for export; liquefied natural gas (LNG) for export; fertilizer production. Slide 20 was titled, "Natural Gas Liquids (NGL) Export," and included: Extraction/fractionation/storage facility at Port MacKenzie or Nikiski; additional pipelines to berths and loading facility; new commercial studies to determine full-value chain value and market viability by R. W. Beck. Slide 21 was a definition of NGLs. Slide 22 was titled, "Gas To Liquids (GTL) Export," and Mr. Fauske warned that the GTL market involves converting natural gas into diesel and jet fuel, using facilities that are very expensive and create a troublesome amount of carbon dioxide byproduct. Slide 23 was a definition of GTLs. Slide 24 depicted the liquefied natural gas facility at Nikiski. Slide 25 was a definition of LNG.

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REPRESENTATIVE SADDLER asked whether the LNG facility at Nikiski would require a large reinvestment in order to make its product competitive internationally.

MR. FAUSKE assumed that opening the facility would require a long-term, well-priced, steady supply of gas.

REPRESENTATIVE PETERSEN recalled a tour of the facility and said it is in good condition.

4:39:21 PM

MR. FAUSKE presented slide 26 which listed Tier 1 Project Permits such as those required from the Bureau of Land Management (BLM), the Alaska Department of Natural Resources (DNR), and the U.S. Army Corps of Engineers (USACE). Slide 27 listed Tier 2 Project Permits. Slide 28 was a timeline that indicated the Project Schedule from 7/1/10-12/31/15, and a completion date of 2018. Slide 29 was an Environmental Impact Statement Project Schedule. Slide 30 provided the website address for the most recent Plan of Development published by USACE. Mr. Fauske closed by saying that the in-state gas pipeline project will also explore issues in rural areas in order to develop an overall strategic plan to benefit all Alaskans.

CO-CHAIR PRUITT relayed that the military in Hawaii obtains jet fuel from foreign countries, although federal law requires that military sources are within the U.S., if possible. He asked whether the bill tasked the project to explore the interests of potential anchor tenants.

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MR. FAUSKE assured the committee the project is actively pursuing anchor tenants from the mining industry, airports, and the military, although the military is limited to paying a West Coast equivalent price for jet fuel. As a matter of fact, a facility in Alaska serving all the military in the Pacific Rim is enticing. However, he pointed out that the airlines are very competitive, and must be offered products at competitive prices. Mr. Fauske explained the benefit of a one-time equity infusion to drive down capital costs and reduce the tariff, but discouraged the prospect of an on-going subsidy.

[4:48:41 PM](#)

REPRESENTATIVE LYNN asked for the relationship of energy from the proposed in-state gas pipeline and energy from the proposed Susitna dam.

[4:49:10 PM](#)

MR. FAUSKE responded that the dam will eventually provide electricity, but it will not supplant gas due to the problem of the cost of converting infrastructure from the use of gas to electricity. The hydroelectric project is 15 years away, and gas is more accessible, however, both are needed.

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CO-CHAIR PRUITT agreed there is a need for both.

REPRESENTATIVE SADDLER stated his impression that this project is in competition with the AGIA pipeline.

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MR. FAUSKE opined the success of AGIA is the best solution - if that happens, this project becomes a spur line and the work already completed will be a part of the AGIA process. On the other hand, the projects have two different goals in that AGIA is a strictly competitive project to transport massive amounts of gas for sale on a worldwide market. The goal of the in-state pipeline project is to supply gas to Alaskan residents, with or without anchor tenants. In further response to Representative Lynn, he said the same concept applies to Denali-The Alaska Gas Pipeline.

[4:54:17 PM](#)

REPRESENTATIVE PETERSEN concluded that if the small diameter pipeline proceeds, AGIA will not.

MR. FAUSKE said no. He clarified that if AGIA is successful, there is no need for the in-state pipeline; however, until the fate of AGIA is known, progress toward solving the immediate problem of providing gas to Alaskans must continue.

[4:55:06 PM](#)

CO-CHAIR PRUITT opined difficult decisions are ahead for legislators who need to develop key infrastructure for the state.

[4:56:14 PM](#)

MR. FAUSKE closed by saying that this is a solvable problem; in fact, the state has many assets and strengths, and he advised against inaction.

[4:58:39 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 4:48 p.m.