

HOUSE FINANCE COMMITTEE  
March 22, 2012  
1:38 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:38 p.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair  
Representative Bill Thomas Jr., Co-Chair  
Representative Anna Fairclough, Vice-Chair  
Representative Mia Costello  
Representative Mike Doogan  
Representative Bryce Edgmon  
Representative Les Gara  
Representative David Guttenberg  
Representative Reggie Joule  
Representative Mark Neuman  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Joe Michel, Staff, Co-Chair Stoltze; Larry DeVilbiss, Mayor, Mat-Su Borough; Delena Johnson, Mayor, City of Palmer; Dan Sullivan, Mayor, Anchorage; Michael Foster, Chairman, Knick Arm Bridge and Toll Authority; Jeff Otteson, Director, Program Development, Department of Transportation and Public Facilities; Jeff Stark, Chief Assistant Attorney General, Transportation Section, Department of Law; Bob French, Chairman, Government Hill Community Council; Ben Northey, President, Colaska Inc.; Robert Dun, Engineer, Colaska Inc.; Doug Smith, President and CEO, Little Red Services, and Chair, The Alliance; Representative Mike Hawker, Co-Sponsor; Bill Walker, Owner, Walker Levesque, LLC, Anchorage; James Mery, Vice President, Lands and Natural Resources, Doyon, Limited; Tom Wright, Staff, Representative Mike Chenault; Senator

Huggins; Representative Mike Chenault, Sponsor;  
Representative Alan Austerman; Representative Steve  
Thompson.

PRESENT VIA TELECONFERENCE

Lyn Carden, Wasilla, Executive Director, Wasilla Chamber of  
Commerce; Pete Mulcahy, President, Chugiak and Eagle River  
Chamber of Commerce; Aves Thompson, Executive Director,  
Alaska Trucking Association; Darcie Salmon, Assembly  
Member, Mat-Su Borough; James Kenworthy, Self, Anchorage;  
Jeff Cook, Regional Director, External Affairs, Flint Hills  
Resources, Fairbanks; Richard Fineberg, Self, Fairbanks;  
Lynn Willis, Self, Eagle River; Richard Peterson, Self,  
Anchorage; Brad Henspeter, Self, Copper River; Lisa  
Herbert, Executive Director, Greater Fairbanks Chamber of  
Commerce; George Pierce, Self, Kasilof; Clai Porter, Self,  
Anchorage; Gene Therriault, Vice President, Resource  
Development and External Affairs, Golden Valley Electric,  
Fairbanks; Chuck Wieggers, Self, Fairbanks; Deborah  
Brollini, Self, Anchorage; Julie Duquette, Self, Fairbanks;  
David Owens, Owens Inspection Services, Palmer; Chuck  
Renfro, Home Builders Association, Anchorage; Leigh Skiles,  
Self, Homer; Tom Lakosh, Self, Anchorage.

SUMMARY

HB 9 IN-STATE GASLINE DEVELOPMENT CORP

HB 9 was HEARD and HELD in Committee for further  
consideration.

HB 158 KNIK ARM BRIDGE AND TOLL AUTHORITY

CSHB 158(FIN) was REPORTED out of committee with  
a "do pass" recommendation and with one new zero  
fiscal note from the Department of Transportation  
and Public Facilities.

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HOUSE BILL NO. 158

"An Act relating to the authority and obligations of  
the Knik Arm Bridge and Toll Authority, to bonds of  
the authority, and to reserve funds of the authority;  
authorizing the state to provide support for certain

obligations of the authority; relating to taxes and assessments on a person that is a party to an agreement with the authority; and establishing the Knik Arm Crossing fund."

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Vice-chair Fairclough MOVED to ADOPT proposed committee substitute for HB 158, Work Draft 27-LS0431\T (Martin, 3/22/12) as a working document.

Co-Chair Stoltze OBJECTED for purpose of discussion.

JOE MICHEL, STAFF, CO-CHAIR STOLTZE, relayed that the committee substitute (CS) included two changes. The following language was deleted from the original bill (Section 1 part of AS 19.75.111(a)):

Monetary obligations incurred by the authority under the partnership or contract are obligations of the state and satisfactions of those obligations from funds other than authority funds is subject to appropriation.

Mr. Michel shared that the additional bill sections had been renumbered. The second change was on page 4, line 25 where the words "ad valorem taxes on real or personal property and special property tax assessments" were inserted following the words "shall be exempt from all."

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, it was so ordered.

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REPRESENTATIVE MARK NEUMAN, SPONSOR, presented the bill relating to bonds and the authority of the Knik Arm Bridge and Toll Authority (KABATA). He relayed that he had been a non-voting member on the KABATA board for five years. He believed the state had opportunities moving forward with the bridge and that it was part of the critical infrastructure development. The bridge would cross the Knik Arm and would provide access to the potential gas pipeline terminus, opportunities to move into western Alaska, gas or coal reserves, and a potential gas pipeline from Cook Inlet into the Interior. He stated that the bridge connected many of the different infrastructure projects together. The

bridge would also link the Port of Anchorage (that received the majority of freight imported into the state) and Port MacKenzie (an industrial port with 14 square miles of land designated for industry). He stressed that the industry utilizing Port MacKenzie could help support an instate gas pipeline, oil and gas storage facilities, a gas to liquids facility, and other. He communicated that there were experts available to discuss the issue in depth. He communicated the intent to address the state's obligation in relation to the project; the section had been removed from the legislation.

Representative Neuman discussed that a portion of the bill proposed an increase in the bonding authority from \$500 million to \$600 million. He furthered that the bill would create a reserve fund, but funds were not being requested currently; work continued to determine how to progress. He emphasized that the project represented an opportunity to provide income to the state; within the first ten years the bridge was expected to bring in over \$1 billion for instate transportation projects (e.g. ferry, airport, road, or port projects). He opined that with a drop in throughput in the Trans-Alaska Pipeline System (TAPS) it was important to diversify the economy and locate new revenue streams for the future. He accentuated that the bridge "literally is free to the state government" and would be funded by toll revenues that would cover maintenance for the first 35 years. Additionally, within the first 35 years over \$10 billion in revenue projects were estimated for the state; the excess revenue would go through the general fund for designation by the legislature for transportation projects. He stressed that the bridge would not cost the state government money. He introduced individuals involved in the project development.

Co-Chair Stoltze asked several mayors to provide brief statements regarding their position on the legislation.

LARRY DEVILBISS, MAYOR, MAT-SU BOROUGH, supported the bridge. He pointed to road and traffic problems in Palmer and Wasilla that would need to be addressed by a bridge or significant improvements to the Glenn Highway; if the industrial traffic going north could bypass the areas it would be a huge relief. He emphasized that the economic element in Mat-Su was significant; Port MacKenzie was an industrial port and a direct connection to Anchorage provided great potential for economic expansion. He relayed

that the economic development would eventually occur without the bridge; however, the project would accelerate the development, jobs, and revenue. He reiterated the borough's support for the project.

DELENA JOHNSON, MAYOR, CITY OF PALMER, spoke in support of the bridge. She explained that all residents from the Mat-Su Valley drove the road frequently to reach the major facilities in Anchorage. She opined that it was important to have an alternate route to Anchorage for safety and population expansion reasons. She was concerned that currently there was only one way to reach the valley by road for emergency response vehicles. She encouraged the committee to help "make something happen."

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Mr. DeVilbiss communicated that Wasilla Mayor Verne Rupright and the Mayor of Houston were also very supportive of the project.

Co-Chair Stoltze believed the two mayors had litigated against some "forces" in the City of Anchorage on behalf of the project in the past.

Representative Gara noted that approach roads, a tunnel, and possibly a second bridge were also included in the project. He wondered what necessary improvements would be made on the Wasilla side of the bridge to get drivers from the bridge to Wasilla and Willow. He asked about a cost estimate related to the items.

Mr. DeVilbiss answered that the legislature had set aside \$250,000 for the items the prior year. The "Port to Parks" project was of "imminent" importance and the goal was to bypass the traffic heading north around the west side of Big Lake. Currently the project terminated where the Knik Goose Bay road turned towards Wasilla. He stated that the project was not a road to nowhere.

Representative Gara asked about the required length of the road to Willow from the bridge drop-off and its estimated cost. Mr. DeVilbiss replied that he did not have a cost estimate.

Co-Chair Stoltze remarked that the Department of Transportation and Public Facilities (DOT) would be better equipped to answer the question.

Mr. DeVilbiss continued that the road would be less than 30 miles; the rail extension was 32 miles and went to the port. The bridge included a road component of approximately 11 miles that went considerably away from the port.

Representative Gara wondered whether any improvements would be required on Knik Goose Bay Road in order to accommodate the bridge. Mr. DeVilbiss replied that "that's already scheduled and in the in design process." He added that DOT could speak better to the question.

Co-Chair Stoltze commented that the projects were a highway safety corridor and were irrespective of the Knik bridge project. He relayed that Representative Neuman had put the \$250,000 through for an impact study and to help local communities plan and be involved in the process.

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Representative Neuman addressed what would happen after the bridge was built. He explained that if a new road followed, (such as the railroad corridor) it could help reduce traffic by 25,000 to 30,000 vehicles per day on the Glenn Highway. He furthered that the state spent \$40 million to \$50 million every five years on highway rehabilitation, which could be extended out further if traffic was funneled onto a new road that continued north off of the bridge. He surmised that the cost of the road would be substantially less than the maintenance that would be required on existing roads. He discussed increasing safety and reducing traffic congestion.

DAN SULLIVAN, MAYOR, ANCHORAGE, vocalized support for the legislation. He had been a proponent of the bridge for decades and believed it was timely for the state to complete the project. He discussed that the Port of Anchorage brought in approximately 240,000 containers per year and that a significant number were sent up the highway to Palmer, Wasilla, Fairbanks, and other; unfortunately, each of the shipments had to travel through downtown Anchorage; therefore, reducing the number of trucks traveling through downtown would increase the quality of life in the city. He opined that a secondary access route

through the two most populated areas of the state made sense; he pointed to Glenn Highway road closures (due to accidents or other) that resulted in 18,000 to 20,000 people being stranded for up to many hours; time is money and when people were stranded economic loss resulted. He furthered that there were significant resources north of Anchorage and access by road, rail, and port provided the critical infrastructure needed to get the items to market.

Mr. Sullivan expounded that Anchorage was running out of developable land. He stated that there were large numbers of people moving to the Mat-Su Valley and access to more available land for residential and industrial use made sense from an economic standpoint. He was a "100 percent supporter" of the project. He would prefer that the bridge was not a toll bridge and believed the state was responsible for building critical infrastructure that were essential to the developmental needs of its regions; however, he was confident that after a number of years there would be an economic benefit to the state from the tolls that would then help fund projects statewide.

Co-Chair Stoltze asked Mr. DeVilbiss to confirm that there was no plan to annex any part of Anchorage. Mr. DeVilbiss affirmed.

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MICHAEL FOSTER, CHAIRMAN, KNICK ARM BRIDGE and TOLL AUTHORITY, appreciated the opportunity to testify. He discussed that KABATA had been established by legislation in 2003 with a mission to connect the east and west sides of the inlet. The property boundary was a bridge structure of approximately 14,000 feet and 18 miles of connecting road. He relayed that there had been some changes from the previous bill version offered the prior year and that he had worked diligently with the governor's office on the legislation. He relayed that the bill had three parts. The first part was the increase of the private activity bond from \$500 million up to \$600 million. The bond would allow a private equity and partner to be a conduit for the bond; the entity would be able to access the bond through the federal government. The limit was currently \$600 million and the legislation allowed the limit to be available to a private partner.

Mr. Foster relayed that KABATA was pursuing a public (the state) and private (private investor) partnership. He reiterated that the project was a conduit and that the state had no obligation or risk associated with the project; the bill provided a conduit for a private partner to access cheaper money; if the money was cheaper the state's payments would be less. The second part of the legislation clarified that the bridge would be part of the state's transportation system and was therefore not subject to property tax. The language was to ensure that a private developer would not apply a risk factor that would cost the state more money. The third part of the bill established a reserve fund. Excess revenue generated by the bridge would go into the fund. He relayed that according to the project model the reserve fund needed to have approximately \$150 million by the time the bridge opened; it was the equivalent to a secured line of credit that showed the developer the state could make its payments if toll revenue was not sufficient. He relayed that a secured a line of credit would lead to cheaper money and a lower cost proposal to the state.

Mr. Foster informed the committee that the project had been approved by the Federal Highway Administration; it had also received a no-jeopardy determination related to the endangered Beluga whale species. The entity was currently working to obtain core and coast guard permits and a letter of authorization from the National Marine Fisheries Service. The project was in the right-of-way acquisition phase; phase 1 on the east side had two residential properties, a strip-mall, and two business properties; one of the properties had been acquired and KABATA was in negotiations to purchase the remaining four. He noted that some relocation had been done as part of the right-of-way acquisition. He relayed that the project was in line with the federal highway's right of way process. He noted that his colleague would talk more extensively about the issue.

Mr. Foster explained that KABATA was currently in a solicitation process. The solicitation had received a substantial response from six highly qualified firms (designers, financiers, operators, and builders) and the list had been reduced to three. The entity and the governor's office were working on the draft Request for Proposal (RFP) process; he provided detail on the process. He expressed that population was the key word. He explained that the bridge was built for the future and not for the

current population. He stated that population models by the University of Alaska Anchorage Institute of Social and Economic Research (ISER), Department of Labor and Workforce Development, Woods & Poole, and Wilbur Smith all showed the same data for the Mat-Su Borough. He referenced the Anchorage Metro Area Transportation Solution (AMATS) Metropolitan Transportation Plan, which showed that the Mat-Su Borough had approximately 90,000 residents in 2010; models showed that the borough would increase by 118 percent to 190,000 by 2035. He relayed that all of the population models were very similar. The same models showed that the Eagle River to Eklutna would grow by 74 percent (from 39,000 to 68,000). He stated that the models indicated that the Anchorage area was running out of room (the models showed 15 percent growth in the Anchorage "bowl" area). He stressed that the models showed the population growth would occur with or without a bridge.

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Mr. Foster highlighted what things would look like in 25 years related to population and traffic growth with no bridge. Currently at the Eklutna Bridge the average daily traffic count was 30,000; the daily average had been 15,000 25 years earlier (the Mat-Su Borough population had been almost half of the current population). He discussed what a population growth of 119 percent would mean for traffic at the Eklutna Bridge; the KABATA model showed that in 25 years the average daily traffic would be 65,000 vehicles. For context he explained that in 2010 the average daily traffic was 52,000 by the weigh station at the Highland Bridge in Eagle River; 25 years earlier it had been 39,000; projections showed that without a bridge the number would go to 110,000. According to a 2008 DOT study, improvements to the Glenn Highway would cost \$3 billion and would include 8 traffic lanes to handle the traffic if a bridge was not built. He stated that the Glenn Highway would slow down without a bridge to handle the population growth. He did not know whether federal highway money would be available to fund the Glenn Highway improvements; the state's match would be at least \$300 million if the federal money was available.

Mr. Foster addressed what no bridge would mean for traffic, safety, and corridors. The \$3 billion in improvements did not include impacts to Eagle River, Chugiak, Peters Creek, or Eklutna. He pointed to the argument that the bridge

would require significant work on the west side of the inlet and stressed that the state would have to spend more money on infrastructure if a bridge was not built. He emphasized that the commute would be closer from Point MacKenzie than it was from Eagle River. He reiterated that there was available commercial, industrial, and residential land in the west. He accentuated that the bridge would be utilized by traffic in both directions; trucks moving containers from the Port of Anchorage would utilize the bridge instead of driving through the city to the Glenn Highway. He observed that the cost to the state without a bridge was "pretty phenomenal." The bridge is "private equity" and it "cost the state nothing." He stated that there was risk and the state did have "skin in the game," but risk represented reward. The project was a public-private partnership. The state's risk was related to whether there would be sufficient traffic to generate enough revenue to make the annual payments; the KABATA model showed that there was. He relayed that there was a choice; without a bridge there was a definite cost and with a bridge using private equity there was infrastructure that paid a return back to the state. He expounded that a bridge would create economy.

Mr. Foster continued to discuss the project. He referenced a conversation with a Kenai assembly member who had relayed that 47 percent of the Kenai Borough land was located on the west side of the inlet and the bridge represented the first connection to the west side. He detailed that 28 miles from the bridge on the west side was a connection to existing roads. He had met with the governor and had communicated that the road would be the first true road to resources.

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JEFF OTTESON, DIRECTOR, PROGRAM DEVELOPMENT, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (DOT), addressed the concept of a public-private partnership (P3s), which was new to the state. He explained that P3s were used globally in many jurisdictions (e.g. Korea, Australia, New Zealand, South America, Europe, British Columbia, and other). He had visited an office called Partnership B.C. in British Columbia (B.C.); the purpose of the office was to determine whether an infrastructure project should be done by P3 (the default choice was P3). The province used P3 for infrastructure, utility projects, hospitals, and all types

of government built construction. He referred to the availability model approach, which meant the owner (the state) was responsible for making the annual bond payment if the revenue was not there; B.C. also used the approach as a default and preferred method in conjunction with a P3. He explained that the approach lowered financial risk and in turn provided a better financing rate. He addressed why a P3 would be used if the revenue risk was taken off of the builder and placed on the owner. He detailed that Partnership B.C. liked the idea of giving a single entity responsibility for all parts of a project (i.e. design, financing, construction, and long-term maintenance); the risk involved was placed on the P3. He elaborated that the "best and brightest" were brought in from around the globe; he stated that the listed teams represented a "who's who" of infrastructure. The partnerships were widely used; Canada had approximately one-tenth of the U.S. population, but its dollar volume of P3s was 10 times greater (per capita Canada was using P3s 100 times the U.S. rate).

Mr. Otteson pointed to the availability payment issue that required some amount of state money backing the bonds to cover the difference between earnings and the bond payments in the early years of the bridge. He relayed that the concept was not unusual and that it was used in B.C. He referred to the Red Dog Mine as an example of an infrastructure project where the state made payments to a private investor; state funds to supplement the mine revenue after 19 years (it took 19 years for the project to break even). He believed the project had been very good for the state and Nenana region.

Mr. Otteson discussed that the project was the only surface transportation project in the state that was proposing to pay for its operating, maintenance, and capital. He stressed that all other projects that came before the committee required the entire capital cost to be funded by the state. He expounded that the bridge was the only project that would provide a dividend to the state when revenues exceeded the payments in the future; he believed there was approximately \$9 billion in excess revenue expected that would begin in about 20 years; the funds would then be available to fund any other surface transportation projects (ferries, roads, bridge, and transit). He referenced an earlier question about how the road to Willow/Houston would be funded. He explained that if the bridge was not built other roads would need to be

built in the Mat-Su area to deal with the population. He relayed that the road cost would be determined by population and not the project. He stressed that population led to traffic and traffic led to investment needs. He emphasized that rebuilding costs would be higher to go around the Parks/Glenn Interchange because the distance was longer.

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Representative Doogan asked whether Mr. Otteson currently worked for the state. Mr. Otteson replied in the affirmative.

Representative Doogan asked whether the governor supported the legislation. Mr. Otteson answered that the governor supported the project and intended to make a decision on the financing model once permits had been obtained.

Representative Doogan asked for verification that the governor supported the project but did not want to fund it with state dollars at present. Mr. Otteson responded that the governor had not proposed any state funding in the FY 13 capital budget.

Co-Chair Stoltze asked whether the project was currently waiting on some federal processes. Mr. Otteson responded that the project was awaiting permits from the Corps [Army Corps of Engineers] and the Coast Guard, which could change the overall cost due to mitigation or changes in structural design.

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Representative Gara noted that the committee had only heard from supporters of the project and requested that Bob French be allowed to present his side of the story. He relayed that Mr. French had worked on the project for many years and was the president of the Government Hill Community Council.

Co-Chair Stoltze agreed.

Representative Gara expressed frustration that although the project had not gone forward, KABATA had engaged in imminent domain and had purchased and made property offers to residents in Government Hill; the gas station, mall,

hotel, and two homes were being purchased so KABATA could build a tunnel through the area. He asked Mr. Foster whether it was premature to spend the money before the project had been secured.

Mr. Foster responded in the negative. He elaborated that DOT was currently working on the right-of-way acquisition for the state, which had begun after the state had federal authorization. The process entailed that the right-of-way acquisition was to occur during the project design phase. Typically under a P3 model the right-of-way was acquired and established prior to the contract. He corrected that the infrastructure would be a cut-and-cover tunnel with a greenbelt on top. He noted that Mr. Otteson could expound on the federal highway process.

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Mr. Otteson explained that the right-of-way stage occurred after the environmental documents and record of decision had been received. He detailed that the record of decision had a three-year shelf life; the environmental document may need to be redone if a project did not go forward during the three-year period, which could be time consuming and expensive. He stressed that once a record of decision had been issued those involved were "under the gun" to execute the next steps of the project. The right-of-way had been authorized by the Federal Highway Administration. He emphasized the importance of moving forward and noted that there were many items that tended to act as roadblocks to major infrastructure projects.

Vice-chair Fairclough inquired whether the right-of-way was similar to the one at Lake Otis and Tudor when a motel and gas station had been removed prior to the road work. Mr. Otteson replied in the affirmative. He relayed that the properties had been bought by the Municipality [of Anchorage] several years in advance of the project.

Representative Gara asked how much time remained to purchase the Government Hill property under federal rules. Mr. Otteson answered that work would need to begin within approximately 21 months. He reiterated that if the work had not begun there was risk that the environmental document would go stale.

Representative Gara believed KABATA should have waited for the legislation to pass prior to "condemning people's property and businesses in the city's oldest neighborhood." He pointed to a \$600 million bonding allowance in the legislation and wondered who was responsible for the money if the private party defaulted. Mr. Foster replied that the state had no fiscal responsibility for the bond; if the private developer defaulted the issue was between the private party and the federal government. He reiterated that the state was only a conduit and had no fiscal responsibility for the bond.

Representative Gara asked for verification that if the private developer defaulted the state would not be held liable for the money under any circumstance. Mr. Foster responded in the affirmative.

Representative Gara asked for verification that (according to the original KABATA studies) the time travel estimate would be longer to Palmer and Wasilla if the bridge and road upgrades were completed than it would be on the Glenn Highway.

Mr. Foster believed so. He thought there was a point in Wasilla where there would be a 7 minute savings if the bridge were constructed. He referenced his earlier testimony that the bridge would provide a time savings for future populations. He did not expect people in Eagle River or Wasilla to quit using the Glenn Highway unless there was a road closure.

Representative Gara pointed to use estimates that were relevant to determine whether the private party would make sufficient money on toll revenue. He surmised that for many years to come with a limited population in the Knik area nobody would want to spend money on a toll bridge if they could drive a highway for free and could get home at a similar time in the Palmer and Wasilla areas.

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Mr. Foster believed the statement was fair; however, he opined that businesses would build in the area near the bridge site if the project went forward. He remarked that a bridge was not needed if a person did not believe in Alaska or that its population would grow.

Representative Gara hoped that Mr. Foster did not mean that people who disagreed with the plan did not believe in Alaska. Mr. Foster replied in the negative. He believed the population growth would occur and that new infrastructure was needed.

Representative Gara wondered whether it would be the state's responsibility to pay for the approach and departure roads on both sides of the bridge. He pointed to a previous proposal that would have privately financed the roads in addition to the bridge. He listed the tunnel from Government Hill, a bridge from Ingra and Gamble Streets, roads to Wasilla and Willow. He wondered what the private contractor would pay for.

Mr. Foster responded that the cut-and-cover bridge and the approach roads were covered under phase one of the project. The Ingra/Gamble connection under phase two was not included in the existing P3; it may be added at a later time. He furthered that the Ingra/Gamble connection would not be built until user revenue had been created. Phases one and two were through KABATA; phase one was through a contract with KABATA and a private partner; phase two would be paid for with project user fees.

Representative Gara took Mr. Foster's testimony to be up to date, but noted that written plans showed that the Ingra/Gamble connection would be built ten years after the bridge. He asked for the total cost to public entities for roads to Wasilla and Willow, Knik Goose Bay Road upgrades, and roads on the Anchorage side.

Mr. Otteson addressed each road individually. He explained that the Knik Goose Bay Road needed to be widened due to current traffic. He noted that environmental documents for the work were underway.

Co-Chair Stoltze asked for discussion to focus on projects that were currently in the Statewide Transportation Improvement Program (STIP) to accurately reflect costs.

Mr. Otteson did not have an exact cost estimate. He discussed that there were a couple of possibilities for the alignment of the connection to the Big Lake and Houston areas. There was a right-of-way along the new rail alignment that had been made available by the borough; he noted it would be a huge cost savings to have the right-of-

way already available. Projects would be driven based on how soon they were needed. He relayed that initially Vine Street would be used, which bypassed congested areas of Wasilla and the Knik Goose Bay Road.

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Mr. Otteson furthered that as the bridge generated traffic it would generate enough revenue to begin to pay for the additional improvements. He detailed that the timing of the Ingra/Gamble connection would be determined by the pace of traffic growth; it could be in 8 years, 12 years, or other.

Representative Gara noted that he had not received an answer related to the cost estimate.

Co-Chair Stoltze explained that the projects were all ongoing and he believed that the answer would only be a speculation. He asked Mr. Otteson if the assessment was fair.

Mr. Otteson agreed. He added that many of the roads would be needed regardless of the bridge.

Representative Gara doubted a highway was needed from Willow to Knik in the absence of a bridge.

Co-Chair Stoltze remarked that there was a rail spur and encouraged committee members to drive out to look at it.

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Representative Costello asked how important it was for the bridge to self-finance its operations, maintenance, and capital costs.

Mr. Otteson replied that the project would bring its own money to the table, would solve a transportation need between Mat-Su and Anchorage, and would be funded by a non-state or non-federal source. He expounded that the bridge would allow money to be spent elsewhere in the state. He added that the project would self-fund operating costs for the life of the P3, which always constrained projects.

Representative Costello asked whether there were examples of the state backing bonds on private investors in relation to transportation in Alaska. Mr. Otteson was not aware of

any apart from the Red Dog Mine. He believed that the fact that Red Dog had required state support of the bonds for close to 20 years was a good example.

Representative Costello asked which other projects the state would look at and how they would be financed if KABATA did not go forward.

Mr. Otteson responded that it would be necessary to widen the Glenn and Parks Highways sooner. He believed that the widening would occur with or without the bridge due to population growth in Mat-Su. He furthered that even postponing the widening would allow other projects to go forward across the state. He believed that the ability to postpone the widening for 5 or 10 years would be a "powerful benefit" for Alaskans.

Representative Costello enquired whether assumptions had been built into the projections that related to pipeline throughput. She pointed to ISER's research on the Alaska economy and that one out of three jobs was related to one industry. Mr. Otteson did not have the information.

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Representative Guttenberg asked about the foundation for the legal justification that the state would not be responsible for debt if the private entity defaulted.

Mr. Foster answered that the private activity bonds were a conduit. The private partner would apply for the bonds from the federal government and the activity did not fall under the state's books. He furthered that in the event of a private partner default, the state (as the owner) would have a commitment to make payments, but the liabilities of the private partner would not come back to the state.

JEFF STARK, CHIEF ASSISTANT ATTORNEY GENERAL, TRANSPORTATION SECTION, DEPARTMENT OF LAW, elaborated that the protection was in the type of bond sold; private activity bonds were a relatively common form of financing and the protection was in the documentation included in the bond sale. He discussed 2003 legislation that had given KABATA the authority to sell up to \$500 million in bonds; the current bill increased the authority by 20 percent to \$600 million. The legislation did not limit the type of bonds that would be sold; theoretically if the P3 structure

fell apart, KABATA would have the legal authority to sell bonds that it would be responsible for; however, KABATA's current focus was on requiring a private developer to raise all of the financing. The entity would have the ability to secure the financing of its choice (i.e. through a bank or other) and the state would have no involvement. He detailed that private activity bonds issued by a state entity were free from federal income taxes; therefore, the rate and deal for the state were much better. The state would issue the bonds, but under the terms of the bonds it would have no obligation to pay them; the sole obligation would fall to the private developer. He furthered that the state's only obligation would be the availability payments to the developer. He detailed that if the developer defaulted on the bonds, the bond investors would have a claim against the developer, but not the state. He explained that if the state defaulted on its payments to the developer, the bond holders would have no right against the state; the developers would have the right to pursue the state. He reiterated that the financing technique was common and was not unique to Alaska.

Representative Guttenberg communicated that he was always concerned when states were compared because each state has different laws.

[2:48:22 PM](#)

Representative Doogan asked whether the information provided by Mr. Stark represented a settled matter of law. Mr. Stark responded in the affirmative. He detailed that the types of bonds were issued on a regular basis and the public entity did not have a liability if they were sold as private activity bonds.

Representative Doogan queried whether the issue had been litigated and that courts had agreed with the assessment provided. Mr. Stark replied that he did not know the answer. He stressed that it was his firm understanding from talking to innumerable lawyers and financial experts that the technique was common and that there was no liability [to the public entity].

Representative Doogan requested any information on whether or not the issue had been litigated. He wanted to know whether the issue was a settled matter of law, an economic

assumption, or other. Mr. Stark would follow up with the information.

Representative Gara queried earlier testimony that the state would be liable for obligation payments.

Mr. Stark answered that KABATA would enter into a contract with a private developer under a public-private agreement (PPA); the agreement would require KABATA to make quarterly or monthly availability payments to the private developer once the bridge was in use. He clarified his earlier testimony that the payments would be KABATA's (and not the state's) only obligation. He explained that if the private developer chose to issue public activity bonds, the bonds would be issued by KABATA, but only the private developer would have an obligation to pay the bonds. The bond holders would have no claim or lawsuit against KABATA if the private entity defaulted on payments. He added that if KABATA failed to pay the developer [the availability payments] the private developer could sue KABATA. He summarized that there was one contractual relationship between KABATA and the developer and a separate contractual relationship between the developer and the bond holders.

[2:51:54 PM](#)

BOB FRENCH, CHAIRMAN, GOVERNMENT HILL COMMUNITY COUNCIL, clarified that his testimony was on behalf of himself. He stated that although the removal of language that would have made any obligations of KABATA into obligations of the state may have made the bill more palatable, it was important look at what KABATA had promised the federal government and the prospective P3 partners. He read from KABATA's pro forma that had been included in its TIGER [Transportation Investment Generating Economic Recovery] grant application (page 8) related to the \$150 million reserve fund proposed under the legislation: "If the ending balance falls below \$50 million the state will replenish the account back to \$50 million." He encouraged the committee to look at the entity's next loan application to determine whether the information was still included. He believed that KABATA would probably give assurance of the state guarantee even if language making KABATA's obligations into obligations of the state was removed.

Mr. French stated that it was clear that the full faith and credit of the state was still being pledged if the bonds

were issued through a state agency. He communicated that the obligation of the state was to make availability payments to the developer. He continued that KABATA's pro formas showed that the availability payments totaled \$2.98 billion over the life of the project; the payments were intended to be paid for with tolls; however, they would be paid by the state if tolls were not sufficient. He stated that data disputed the accuracy of future traffic estimates. Two separate traffic projections done for DOT showed traffic counts of approximately half of those predicted by KABATA; the forecasts had been conducted for the most recent Anchorage MTP [Metropolitan Transportation Plan] and Mat-Su LRTP [Long Range Transportation Plan]. He noted that DOT had not released the Mat-Su information despite multiple requests; the council had filed a public records act in an effort to obtain the information. He stated that having half of the traffic prediction come to fruition would be more accurate than 12 other nationwide toll project projections that KABATA's traffic consultants Wilbur Smith Associates had made. He referred to an exposé that had been released in January 2012 showing that Wilbur Smith's projections were 2.27 times greater than the actual traffic in the first five years of operation.

Mr. French related that two toll roads Wilbur Smith had provided projections for (one in South Carolina and one in California) had gone bankrupt; two others had been forced into changes in ownership and/or debt restructuring. He referred to a KABATA graph (copy on file); the green line showed a projection that toll revenues would significantly exceed cost. He explained that if only half of the traffic showed up, the cost (red line) would be below the revenue line for the entire life of the project. He discussed that in a 2011 traffic and revenue forecast for a traffic zone on the Mat-Su side of the bridge, Wilbur Smith predicted 13,828 new jobs for 2035, which was 1,000 jobs less than the entire employment in the Mat-Su Borough in 2009. The number was also 673 jobs more than there were in the Kenai Peninsula and 3,000 jobs more than there were in Juneau. He noted that in 2007 Wilbur Smith had predicted 6,740 jobs for the same areas for the same time period. He addressed what had changed between 2007 and 2011. He explained that in 2007 KABATA had a population estimate for Mat-Su of approximately 250,000 and in 2011 the estimate had gone down to 200,000. He believed the entity had to boost its traffic projections somehow and that it looked like KABATA was trying to show that there were additional jobs in Point

Mackenzie that would create traffic going both directions on the bridge. He stated that the numbers were not compatible with the 14 square mile industrial zone that Representative Neuman had discussed. He stressed that the industrial zone would not support the high job number.

Mr. French referred to a real cost paper that showed an average annual shortfall of \$55 million. He emphasized that it was important to note that the \$55 million would come from the state in order to make the availability payments. He surmised that there would be a number of necessary statewide projects that would not have funding if the state had to fund the availability payments. He referenced a Legislative Budget and Audit Committee (LB&A) audit that was underway and opined that it was worthwhile to wait for its completion. He thought it was a good idea to review the accuracy of the population and toll numbers that KABATA used for its financial plan. He also believed LB&A should conduct an audit of past spending and predicted future spending to determine whether KABATA's projected rate of return made sense. He opined that LB&A should make a recommendation on whether further state investment was justified. He noted that in KABATA's absence, there were currently approximately \$58 million in transportation funds that could be used for other federally eligible transportation projects throughout the state; he pointed to alternatives (e.g. bridge upgrades over Eagle River estimated at \$60 million).

[3:00:58 PM](#)

Representative Neuman asked whether Mr. French had any credentials or background in traffic studies or if he was an engineer. Mr. French answered that he is a professional engineer, but not a traffic engineer.

Vice-chair Fairclough thanked Mr. French for his testimony and participation in community council. She was curious about the \$55 million shortfall that would occur if the traffic did not show up. She asked about the formula that had been used to determine the number.

Mr. French replied that the formula was fairly complicated and had been developed by Jamie Kenworthy. He deferred the question to Mr. Kenworthy.

Vice-chair Fairclough asked for detail regarding the number just under \$3 billion if no tolls were collected. Mr. French answered that KABATA's 2011 pro forma showed that the availability payments would be \$2.98 billion over the life of the P3 process.

Representative Gara asked how the state would be on the hook for availability payments if the tolls did not match the cost to the contractor. Mr. French believed that the availability payments were the obligation that the state said would happen. He equated the payments to having a guaranteed income when applying for a home loan. He detailed that payments would be made to the developer and the developer would acquire the private activity bonds for financing.

Representative Gara queried where the state's legal obligation to make the availability payments was located in the legislation. Mr. French deferred the question to Mr. Stark.

[3:04:38 PM](#)

LYN CARDEN, WASILLA, EXECUTIVE DIRECTOR, WASILLA CHAMBER OF COMMERCE (via teleconference), spoke in support of the bill. She stated that the project would support Wasilla's expanding population and economy and would provide jobs, housing, and reliable transportation across the state. She relayed that Port MacKenzie was a strategic port designed to export bulk commodities (e.g. base and rare earth mineral ores, coal, wood chips, and gravel); the port was also utilized to import materials (e.g. cement and steel pipe). The project would support freight handling capacity, mobility, and improved regional operations; thereby supporting airport, military, and consumer needs while improving safety for Southcentral residents through an alternate north-south emergency response and disaster evacuation route. She furthered that the project would support a transportation infrastructure for existing and projected population and economic growth statewide. She believed that the bridge would foster economic development at Port MacKenzie on the west side of Cook Inlet. She explained that port's industrial district had over 8,000 available acres for future economic development expansion.

Ms. Carden relayed that additional projects (including the Port MacKenzie rail extension) were currently underway to

take advantage of the port's "strategic" location. She opined that the bridge would provide a unique opportunity for Alaska to expand its economy. She urged the committee to pass the legislation.

PETE MULCAHY, PRESIDENT, CHUGIAK AND EAGLE RIVER CHAMBER OF COMMERCE (via teleconference), voiced support of the bill on behalf of the chamber. He discussed that the chamber was focused on projects that would increase the economic health and vitality of the local community and Alaska. He addressed the importance of appropriate infrastructure that would support the development of resources. He relayed that the board had not made a final approval of the KABATA project; its last resolution had been in 2001 that supported the project's fact finding phase. The chamber understood that there were some fiscal concerns, but noted that it had consensus on several of the aspects related to KABATA. He relayed that the chamber had always agreed that the creation of a beltway road system would ease pressure on the Glenn Highway and would provide a second access in and out of Anchorage. He stated that transportation infrastructure needed to move forward with large resource development projects was not in place. He stressed that the projects would demand much greater capacity than what currently existed. The chamber believed that the bridge would solve multiple problems that would benefit the Chugiak/Eagle River area including increased economic activity and solving the congestion issues on the Glenn Highway.

Mr. Mulcahy understood and liked that the bill provided a funding framework and state oversight of the project. The chamber liked that the bill clarified the process of the public-private partnership. He relayed that the issue was on the March 2012 board meeting agenda; the board would discuss a resolution at that time.

[3:11:02 PM](#)

AVES THOMPSON, EXECUTIVE DIRECTOR, ALASKA TRUCKING ASSOCIATION (ATA) (via teleconference), vocalized support for the bill. The ATA saw the Knik Arm crossing as a vital link in the state's future transportation network that would provide an alternative route to and from the Port of Anchorage for northbound freight and would improve the ability to safely and efficiently move freight on the road system. He believed the project represented a once in a

generation opportunity to build on the state's transportation system. He urged the passage of the legislation.

DARCIE SALMON, ASSEMBLY MEMBER, MAT-SU BOROUGH (via teleconference), voiced support for the bill on behalf of himself. He relayed that when Port MacKenzie had been built there had been discussion that it would increase economic activity to justify the Knik Arm Bridge. He stated that he had been working on the issue for over 25 years. He likened Point Mackenzie to the fulcrum of a teeter-totter with Fairbanks, the Interior, and resources on one end and Anchorage and the workforce on the other end; he pointed to the "natural ebb and flow of economic activity" that the analogy depicted. He communicated that the project had been titled a "360 degree economic transportation corridor" to create a cyclical flow. He pointed to the new prison in the area that would create jobs. He believed a new city would be created in the future in Point MacKenzie; he discussed that the combination of the Point MacKenzie Port, Anchorage Port, rail spur, Knik Arm Bridge, labor force, and natural resources would result in progress, opportunity, and prosperity. Additionally, he believed there would be a pipeline to Point MacKenzie in the future. He opined that the benefits outweighed the negatives. He stressed that the bridge, rail, and port brought together 500,000 Alaskans economically. He reiterated his "ardent" support for the project.

[3:17:22 PM](#)

JAMES KENWORTHY, SELF, ANCHORAGE (via teleconference), relayed that his total bridge deficit estimate was \$2.5 billion or \$55 million per year until 2035. He had determined the number based on three calculations. First, he pointed to the 2011 KABATA pro forma done by Citigroup (page 7) that showed \$4.5 billion in cumulative toll revenue to 2050; he estimated that the number would be half of the \$4.5 billion. He elaborated that when CH2M Hill had modeled the ISER demographic data it included 17,700 trips crossing the bridge in 2035 as opposed to KABATA's 36,000 trips (the KABATA figure was 103 percent higher). Second, he shared that the former CIA economist who tracked Wilbur Smith's national projects reported that the company had a 118 percent over-estimation error rate. Third, he addressed a land conflict issue at Point MacKenzie, which he believed was appropriately zoned for industrial and manufacturing;

however, the KABATA data showed \$1.7 million square feet of retail at Point MacKenzie, which he thought conflicted with the industrial plan. He opined that the degree of retail would not work next to coal processing and Liquid to Natural Gas (LNG) plants.

Mr. Kenworthy summarized that his toll revenue estimate was \$2.3 billion; he believed that KABATA would not receive a \$308 million federal TIFIA [Transportation Infrastructure Finance and Innovation Act] loan it had been turned down for in 2007, 2010, and 2011 (the loan was included on page 1 of KABATA's financial plan); and that he had reduced KABATA's estimate of the return on investment the developer would receive from 12 percent to 10 percent, which would add \$150 million back in. He pointed to page 1 of the pro forma and noted that KABATA was counting on \$79 million of equity going in, but the developer was projected to get a net cash flow (page 5) of \$920 million going out. He wondered why the state with a AA credit rating (that could borrow long at less than 4 percent) would pay a developer 10 or 12 percent to finance the project. He referred to the committee's questions related to what would occur if the developer defaulted and advised that a better focus would be on the state's ability to make the annual availability payments, which totaled \$3 billion (page 4). He believed that the focus should be on the toll shortfall and opined that it would suck money out of the transportation budget.

Co-Chair Thomas asked whether Mr. Kenworthy was representing himself. Mr. Kenworthy responded in the affirmative. He provided his credentials. He was the former director of the Alaska Science and Technology Foundation, had read business plans for a living for 30 years, and was a private investor.

Representative Gara asked how the state would become liable for the availability payments. He wondered whether the state had signed a contract related to the payments.

Mr. Kenworthy responded that the contract would presumably be signed after KABATA conducted a request for proposal (RFP). The contract would not pledge a direct state credit. Like a Alaska Industrial Development and Export Authority (AIDEA) or a Alaska Housing Finance Corporation (AHFC) bond, KABATA would be on the hook to make the annual availability payment that was estimated at \$3 billion. He noted that the appropriate question was what would happen

if the toll revenue shortfall occurred and the state had to appropriate \$55 million per year to make up the money. He likened the situation to what would occur if AIDEA or AHFC did not make payments on their bonds. He noted that the agency bonds clearly indicated that the purchase of the bonds was not a direct obligation to the state; however, he believed there was a moral obligation to the state as it would impact the state's credit rating.

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BEN NORTHEY, PRESIDENT, COLASKA INC., spoke in support of the bill. He stressed that it was time to build the bridge. He had worked in the infrastructure industry for 30 years and wanted to be able to travel safely to the Mat-Su Valley. He quoted a slogan that "Anchorage is only 15 minutes from the true Alaska."

ROBERT DUN, ENGINEER, COLASKA INC., urged support for the bill. He stated that there would be a population increase in the Anchorage and Mat-Su areas. He opined that it made sense to have the population growth as close to the center of Anchorage as possible and believed the closest area was directly across the Knik Arm. He discussed that alternative areas for development were to increase population in Eagle River and in Wasilla. He emphasized that there was no zero cost alternative to the bridge. He stated that the failure to perform long-term planning could be painful (as experienced in the effort to connect the Glenn and Seward Highways); the project was stuck because there was no right-of-way in the area. He believed that the problems would only be exacerbated by time and further development in the Government Hill area. He encouraged the committee to view the bridge as an investment for the future and in the short-term health of the state. He related that the project construction timeline was parallel to the time that there would be a decrease in federal highway funding. He surmised that from a jobs perspective that the future looked bleak without the bridge. He stressed that the benefits that the bridge would bring to the state would be provided by funding from private investment.

Representative Gara asked whether the state or KABATA's obligation to make the availability payments in the event of toll revenue deficits would be included in contract. Mr. Dun replied that Colaska Inc. was on the technical side and could not answer the question.

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Kirk Zerkel, Project Manager, Alaska Interstate Construction, voiced his support for the project. He stated that the bridge would provide thousands of valuable construction jobs and would be funded by the user. He believed that the project would eventually create a surplus, which could fund other statewide projects thereby providing for ongoing jobs. He stressed that the project would provide invaluable training and expertise needed for Alaska's future. He communicated that the bridge would free up quality land for residential, commercial, and recreational purposes in Mat-Su; he opined that the items would increase the quality of life and decrease the cost of living in Anchorage. He expounded that the bridge would ease congestion of large truck traffic through downtown Anchorage and would decrease traffic along the Glenn Highway, thereby decreasing the safety hazards in the areas. The project would decrease the burden of record gas prices facing Alaskans. He emphasized that the project was for future Alaskans and urged the legislature to help continue to grow and develop the state to provide for future jobs and commerce.

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DOUG SMITH, PRESIDENT and CEO, LITTLE RED SERVICES, spoke in support of the bill on behalf of the Alliance [Alaska Support Industry Alliance]. He noted that there were several gates left in the process and that the passage of the bill did not mean the state was committed to build the bridge or to make up the difference in tolls before the commercial terms were known. The Alliance felt that the bridge was so important to the state that it would warrant building it without a toll. He relayed that the Alliance did not see the risk as a reason not to go forward with the project; if the state had to make up a slight difference in availability payments the investment level was lower than would be required without private participation. He discussed Alaska's bright future. He believed that Outer Continental Shelf resource development would happen in the future. He had participated in construction in Alaska for years, some of which would not have been possible without AIDEA investment. He believed that the types of projects brought opportunities but the overall value was significant. The industrial zone that would be created by

the bridge would help support fabrication and large module development to support offshore drilling. He pointed to landlocked areas that had no way to expand in Anchorage and opined that a better footprint was needed to participate fully in development for Alaska's future.

Co-Chair Thomas CLOSED public testimony.

[3:35:08 PM](#)

Representative Gara asked for KABATA to confirm where the potential state liability came from.

Mr. Foster clarified that the availability payment was not on top of a return on investment. He explained that the availability payment was like a lease payment; a return on investment was not guaranteed. Under the PPA the private partner was responsible for financing, designing, building, operating, and collecting tolls for 35 years; in turn the state paid the developer an availability payment (also known as a lease payment). He elaborated that the state's obligation was to make the payment to a private developer. From the time the developer began spending the \$700 million to \$800 million it was approximately four or five years before the developer would receive the first payment; availability payments would not be made until the bridge opened for use. He relayed that the total payment would be approximately \$3 billion; he equated it to a house payment - payments needed to be made or the owner would default. The state would be in default if payments to the developer were not made. He reiterated that the model was not tied to return on investment or toll shortfall; the state would still be required to make the payment in the absence of traffic. He furthered that KABATA's model showed that there would be enough toll in the long-term to make the payments; however, in the beginning there would be a shortfall.

Representative Gara queried whether the state's liability would be \$1.5 billion if tolls fell short of construction by that amount. Mr. Foster answered that the state would make up the difference if the tolls fell short. The state would have to invest approximately \$100 million in capital if it chose to build the bridge itself using the federal highway model that provided matching funds; the state would also be responsible for the ongoing maintenance and operation of the facility, including the toll collection if applicable. When comparing a state built project with a P3

model it was necessary to look at apples to apples; if the traffic was short and a deficit resulted the state would be required to pay; if the state built the bridge itself it would be responsible for a portion of the project. He had trouble understanding how people could expect the developer to invest over \$1 billion, but did not want the state to be obligated to make payments. One could argue whether there would be enough toll revenue to make the payments, but the obligation of the state was to pay the developer for its investment in the project.

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Vice-chair Fairclough asked whether there was an estimate for the annual payment.

Mr. Foster referred to a KABATA graph and answered that the payment cost built over time. He relayed that the graph showed a shortfall for the first seven years of operation; the proposed reserve fund would make up the initial shortfall. The total availability payment equaled approximately \$3 billion over 35 years. He pointed out that the contract would contain a termination for convenience clause, which would allow the state to terminate at any point; if the state decided it wanted to own the project the total exposure was roughly \$1 billion. He likened the purchase to a home purchase and explained that the principle would go down annually after the initial \$1 billion payment.

Vice-chair Fairclough asked for verification that the terms to be negotiated would fall under a 30 year contract. Mr. Foster answered that the contract would be 35 years.

Vice-chair Fairclough asked for a copy of the KABATA pro forma that had been generated by Citigroup. Mr. Foster replied that it could be provided to committee members.

Vice-chair Fairclough asked for an explanation on the loan that KABATA had applied for. Mr. Foster responded that TIFIA [Transportation Infrastructure Finance and Innovation Act] was part of the federal highway program and provided low cost financing for infrastructure projects. In reference to earlier testimony he explained that a TIGER grant was another part of the major projects or TIFIA program for federal highways. The TIFIA was funded through Congress and was a leveraging of money at a 10-to-1 ratio.

He believed Alaska received up to two TIGER grant applications in the prior DOT submittal. He elaborated that the grants were a process; his team had met with the administrators of the program in December 2011. He explained that every time KABATA had applied for the loan in the past it had expected to be turned down because the project had not been ready (right-of-way and procurement had not been achieved and permits were still needed). He expounded that as the project matured it got "closer and closer to that TIFIA gate"; the process was competitive. He relayed that KABATA felt positive about its current TIFIA application and that the legislation helped it get closer to obtaining the loan. He relayed that in terms of low cost financing, TIFIA was worth approximately \$300 million to private partners; if the loan was obtained it would lower the cost of the availability payments and the obligation of the state.

Vice-chair Fairclough asked whether KABATA had been provided feedback when its grant applications had been rejected. She wondered whether feedback had given the entity a better outlook on the possibility of acquiring the financing.

Mr. Foster responded in the affirmative. He relayed that KABATA always asked to know what it was missing from the application. He added that a current U.S. Senate transportation bill included approximately \$1 billion for TIFIA, which would increase the available pool of money. He had met with U.S. Department of Transportation Secretary LaHood twice on TIFIA; at the prior meeting KABATA had been told that the project was mature and was the type of project the administration looked for (i.e. toll type and private investment projects). He felt confident about the KABATA team and that the project would be at the top of the list if the TIFIA money was be available.

Vice-chair Fairclough discussed the need to manage mega projects carefully due to their susceptibility to exceed their original cost. She asked whether KABATA was looking at the lowest cost bid or whether it had a way to ensure that quality individuals were managing the project.

Mr. Foster answered that the issue had been included in KABATA's statement of qualifications. He expounded that six firms had submitted applications and through a rigorous review process, three had been selected. He furthered that

all three were quality firms made up of local, national, and international firms (including engineering, construction, and operation firms). He reiterated earlier testimony that responsibility of the private partner was to finance, design, build, and operate the bridge; project cost overruns would not be the state's liability. The state's commitment to the developer would be the availability payments. He detailed that the expansive contract included penalties for items such as clearing snow too slowly, lane closures, failure to collect tolls, and other, all of which were the responsibility of the private partner. Through DOL the state had been diligent in making sure its liabilities were protected; therefore, it did not have liability for construction, operations, and maintenance overruns. He hoped the developer and the state would both make money. He opined that a good partnership was one in which both parties did well; both parties would have their own risk and returns.

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Co-Chair Thomas asked whether there was someone from Legislative Legal present.

Representative Doogan pointed to page 2, line 29 of the legislation that read "deposits made into the reserve fund established under this section must include" and provided a list of sources; one source was money that the legislature had appropriated for "that purpose." He had never seen the language "must include" and asked for an explanation.

Mr. Stark explained that the intent was to create security for the developer. He furthered that the developer would enter into the agreement with KABATA, which would describe the developer's responsibility in great detail (the agreement was approximately 1,000 pages). The developer would be responsible for building and financing the project and would have to put 10 percent of its own money in; it would be on the hook for over \$700 million and would be required to operate and maintain the bridge for 35 years. He related that KABATA's only responsibility was to make the availability payments. The legislation was intended to create a level of certainty for the developer that the money would be there. The legislation and the PPA both included an obligation for KABATA to place the toll revenue into a reserve account to be held as security for the payments owed to the developer. In the event of a revenue

shortfall, KABATA would need to request funds from the legislature to fund the reserve account. He reiterated that the design was intended to lower the risk to the developer and investors and to reduce the cost of the developer, which would reduce the cost to KABATA.

Representative Doogan was concerned about the bill's prescriptive language that required the state to pay money that the legislature would appropriate for the purpose. Mr. Stark clarified that the purpose was for the money to go into the reserve account.

Representative Doogan understood what the language was for; however, he believed it read that the state would be required to put money in the reserve account. He opined that the wording should be revised if it was not the intent.

Mr. Stark replied that he did not believe the language meant that the legislature must appropriate money. Section 5(1) included language that the KABATA chair would come to the legislature or governor in the event of a shortfall in revenue. The section provided that the legislature "may appropriate to the authority the amount certified by the chair of the board that is needed to restore a reserve fund to the reserve fund requirement." He expounded that the obligation of the legislature was a "may"; there was no legal obligation to appropriate the funds. He clarified that the funds must go into the reserve account if the funds were appropriated.

Representative Doogan wondered why the language did not read "may." Mr. Stark answered that the funds must go into the reserve fund if the funds were appropriated; if the funds were not appropriated they would not.

Representative Doogan surmised that the language should read "may include" rather than "must include" as it related to the establishment of a reserve fund. Mr. Stark clarified that the intent was to provide certainty to assure the developer that the money would be available; the stronger the language, the more assurance was provided to the developer, which meant cost would be lower to KABATA.

Representative Doogan believed Mr. Stark's explanation conflicted itself. He thought Mr. Stark had said that the language required the legislature to appropriate money into

the reserve fund and that he had previously indicated that it "may" put the money in the reserve fund. Mr. Stark responded in the negative.

Vice-chair Fairclough clarified that the state may choose to appropriate the money; however, once KABATA received the money could not put it into any account but the reserve fund.

Representative Neuman MOVED to report CSHB 158(FIN) out of committee with individual recommendations and the accompanying fiscal note.

Representative Gara OBJECTED for discussion. He had been surprised that language naming the state liable for a shortfall if toll revenue did not cover the cost of operation and construction; however, he had learned that the requirement would be included in the contract. He appreciated Mr. French's explanation of the state's liability related to the availability payment. He discussed that in a free enterprise system companies were free to take risk, but he opined that it was no longer free enterprise when the government guaranteed that a company would not lose any money. He had initially thought the bill had been substantially changed from the prior version, but he believed that was not the case; the state's obligation to pay for shortfalls that could be \$1.5 billion was included in the contract. He was unhappy that a straight forward answer had not been provided by KABATA. He relayed that he would vote against the bill on the House floor.

Representative Gara WITHDREW his OBJECTION.

Representative Doogan OBJECTED for discussion. He did not believe in the concept that putting more money into a project would guarantee success; he pointed to a fish plant in his district that had failed despite a \$50 million investment by the state. He listed additional items the state had invested in that had failed including, a Point MacKenzie milk facility, grain terminals, and other. He stressed that he could not vote for something of that nature. He referenced a saying "fool me once, shame on me. Fool me twice, shame on you"; he had been fooled before and did not believe that the current argument was either the "best job that's been done or the most compelling job that's been done."

Representative Doogan WITHDREW his OBJECTION. There being NO further OBJECTION, it was so ordered.

CSHB 158(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new zero fiscal note from the Department of Transportation and Public Facilities.

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RECESSED

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RECONVENED

HOUSE BILL NO. 9

"An Act requiring the Joint In-State Gasline Development Team to report to the legislature recommended changes to state law that are required to enable or facilitate the design, financing, and construction of an in-state natural gas pipeline so that the in-state natural gas pipeline is operational before 2016; and providing for an effective date."

Co-Chair Stoltze asked for a brief recap of the legislation.

REPRESENTATIVE MIKE HAWKER, CO-SPONSOR, briefly explained the bill. He relayed that Representative Mike Chenault was the prime sponsor of the legislation. The bill would advance the state's ability to construct a gasline from the North Slope to tidewater. He stated that the ability was a long held dream of Alaskans. The bill elaborated on HB 369, legislation that had passed unanimously two years earlier that directed AHFC to establish a working group with the goal of developing a pipeline proposal. The plan had been completed July 1, 2011 in accordance with the best management practices of the Institute for Project Analysis. He detailed that the plan informed the legislature how it could facilitate monetizing Alaska's gas with a pipeline from the North Slope to tidewater and make gas available to Alaskans at the lowest possible cost. He furthered that the plan identified numerous empowerments needed for a state agency to move the project forward; HB 9 was an empowerment bill that gave the Alaska Gasline Development Corporation (AGDC) the necessary tools to advance a specific pipeline project forward. He elaborated that the specific pipeline project was the only pipeline allowed under the previously

passed Alaska Gasline Inducement Act (AGIA) law, which granted an exclusive license to the TransCanada Corporation (and its partner ExxonMobil) for the monetization of a pipeline that would handle all of the North Slope gas (with the exception of 500,000 cubic feet per day) and had any state involvement. He stated that the bill had been developed respectful of the constraints under AGIA. He relayed that the sponsor believed that a larger project that monetized a greater amount of Alaska's gas would be in the state's greater good; however, a larger line was prohibited under AGIA.

Representative Hawker addressed that HB 9 additionally empowered AGDC to act as the state's representative in negotiations with TransCanada and ExxonMobil in hopes of bringing a larger project to fruition; however, if a larger project was not feasible, the bill provided AGDC with the necessary tools to move forward to an open season within the constraints of AGIA to determine whether there was a market of willing buyers and sellers of Alaska's gas. He emphasized that without the bill the state did not have a seat at the table with the producers and would not have a project moving forward. He concluded that HB 9 was about taking steps to move a project forward to get Alaska's North Slope gas to instate consumers at the least possible cost. He pointed to the online legislative information system (BASIS) that contained an outline of the regulatory authority. He relayed that an amendment had been passed the previous day that created the full framework for the regulation of a contract carriage pipeline in the state, which was critical to obtaining financing and empowering AGDC to bring a project to fruition.

[5:18:55 PM](#)

JEFF COOK, REGIONAL DIRECTOR, EXTERNAL AFFAIRS, FLINT HILLS RESOURCES, FAIRBANKS (via teleconference), spoke in support of the legislation. He relayed that the Flint Hills and other nearby refineries at North Pole and in Valdez were the only refineries in the country that did not have natural gas; the company had to refine oil to energize its refinery resulting in expensive energy costs. He relayed that the expense put the company at a competitive disadvantage; the situation was exacerbated by the high oil prices. The company was working with others on an LNG trucking project to bring cheaper and cleaner energy from its refinery to Fairbanks sooner; however, the project had

always been viewed as a bridge project to a gas pipeline that would go to Fairbanks. He urged the committee to move forward with the bill and to make sure that affordable gas was made available to Interior residents and businesses. He opined that something needed to be done about the expensive heating costs facing families. He referred to a quote "it's better to do something that may not be perfect than to do nothing and do so flawlessly."

Representative Wilson asked whether people were moving out of Fairbanks due to high energy costs. Mr. Cook replied in the affirmative. He told a story about a friend with a used car business who had reported that many people were selling their cars and moving. His house had used a high amount of fuel during the month of February when he had been out of town. He opined that people could not continue to pay the high costs.

[5:23:12 PM](#)

BILL WALKER, OWNER, WALKER LEVESQUE, LLC, ANCHORAGE, spoke against the bill. He listed several of his clients including the Alaska Gasline Port Authority, City of Valdez, and other. He testified that HB 9 was not the problem or the solution. He believed control of the decision making process for bringing oil off of the North Slope had been lost. The world had changed since the AGIA contract had been granted. He was frustrated about talk related to a change in the oil and gas tax structure, but people were leaving the state because the cost of energy was too high; the state needed to focus on providing cheaper energy to its residents through a large volume gasline. He relayed that his background was in building. He believed that credence was given to the faulty footing and that the state needed to move away from AGIA; without action the state would be destined to argue about a series of bad options. He believed it was possible to do much better than HB 9. He stressed that the state should work to peel away layers of confidentiality, not to increase it.

Mr. Walker opined that the bill did not bring economical gas to Alaskans or put any more oil in the pipeline. He pointed to an analysis that showed a large line would reduce the cost of energy in Fairbanks by 80 percent. He stressed that the bill should not be used as the answer and that it would not result in a gas pipeline. He believed the bill took the state's eyes off of the ball, which should be

a large gasline for cheap energy and increased revenues to the state. He pointed to a Wood MacKenzie estimate of as much as \$419 billion to Alaska for export to Asia. He emphasized the world market was filling up by projects with lesser economics. He stressed the importance of fixing the problem; the state needed to take control of its future.

Mr. Walker explained why he believed the problem would not be solved under AGIA; it was not in TransCanada's best interest to take a gasline to tidewater. TransCanada and Foothills Pipelines were co-owners of the license and had tried to stop an export license for Yukon Pacific Corporation. He stressed that the companies wanted gas to go to Canada and not to tidewater. The Port Authority partners had tried without success to get a letter from TransCanada stating that it would build a line to tidewater. He opined that \$60 million in the current operating budget was being spent to study a line into Canada; he wondered why. He discussed national terminals that had become export terminals as a result of shale gas and others in British Columbia that were export terminals of LNG to Asia. He emphasized that Alaska was the only place that had not changed and that a gasline would not result from the current structure. He asked "how do we get out of AGIA?" He pointed to an abandonment clause in the contract that would allow either side to claim that it was not working. He opined that the state should take the action. He surmised that if the state did not get out there would continue to be an open season every two years and that all of the open seasons were focused on a market with 100-plus years of gas at \$2.00 or \$3.00.

Mr. Walker accentuated that the problem needed to be fixed; a mistake had not been made, but the world had changed. He highlighted that the economics were there and that the focus should be on the Asian market and on the upstream side. He listed various reasons that the response in the market place had been rewarding. A relevant question was whether Alaska had time to get into the market; if the state waited too long its gas would be stranded. He had taken many offers to Houston to buy gas at the wellhead from the Asian market that had been turned down. He predicted that Point Thompson would be returned to ExxonMobil and that it would do an LNG study. He stated that numerous gas studies in the state had resulted in nothing. He believed that gas in Alaska was being used by companies as negotiation material for lower oil taxes;

people were moving either to urban areas with gas or out of state as a result. He reiterated that HB 9 was not what was best for Alaska; he was concerned that the bill gave credence to an AGIA process. He opined that the economy of scale on large project was what the state needed. He stated the federal government had described North Slope as a gas deal with some oil left. He urged the importance of extracting the gas in a way that would bring low cost energy.

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Mr. Walker stressed that if the state did not react to changes in the marketplace that its future would not be productive for later generations. He discussed that for \$250 million and in 36 months it would be possible to have trucked gas to Fairbanks for approximately \$7.00. He reiterated that if the problem was not acknowledged there would never be a solution.

Co-Chair Stoltze believed Mr. Walker and the bill sponsors shared many opinions about problems with AGIA. Mr. Walker reiterated that he did not support HB 9. He believed the problem was the AGIA contract.

Representative Wilson did not believe that the bill set the size of the pipeline. She queried whether Mr. Walker's strongest concern was that the line would not be large enough. Mr. Walker replied that the volume of the line was set by AGIA and could not be over 0.5 billion cubic feet.

Representative Wilson explained that the legislature had the ability to determine that AGIA was no longer economical in the future. Mr. Walker answered it would be more difficult down the road if the problem was not fixed at present.

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Representative Neuman stated that the larger line would cost \$30 billion to \$40 billion. He believed an analysis of the project's economic and viability plan was lacking including timelines, work plans, budgets, in-field work assessments, environmental impact statements, right-of-ways, LNG components, and other. He wondered where the project plan was.

Mr. Walker replied that the project plan was that Alaska needed to own the infrastructure. He had provided detail on a financial analysis and a document generated by Wood MacKenzie had been provided to legislators. He explained that if state owned the pipeline its equity would be from \$4 billion to \$6 billion with a return of 12 percent. He emphasized that a small volume line would require the same cost input, but would have no financial return. He was not coming forward to ask for money for a gasline; his message was related to what had been learned and what the state should do. He believed Alaska needed to take care of itself, not necessarily through the Alaska Gasline Port Authority. He expressed his frustration about items happening in the state. He pointed to dramatic population declines in areas due to the high cost of energy. He discussed contracts the port authority had lost because of industry influence; he stressed that the situation was not right and should not happen. The group was a not for profit made up of Fairbanks-born individuals who were trying to do the right thing.

Representative Gara asked for an explanation of the difference in price of energy to consumers between a large line versus (i.e. 3 billion cubic feet) versus a smaller line under HB 9 line (i.e. 500 or 250 million cubic feet). Mr. Walker replied that a large line would reduce the price of energy in Fairbanks down to the \$3.00 to \$4.00 range versus the \$10.00 to \$14.00 range.

Representative Gara asked for Mr. Walker's take on the argument that the state would run out of gas if it waited for a big line. Mr. Walker did not believe the state would run out of gas; he was impressed by gas estimates for Cook Inlet and stated that even if the estimates were wrong by three-quarters there would still be a significant amount of gas in the area. He discussed that more economical and quicker options existed including bringing gas down by truck or train to Fairbanks; the options would be labor intensive, which would not be a bad thing; however, he reiterated his belief that Cook Inlet would not run out of gas.

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Representative Guttenberg thanked Mr. Walker for his work over the years. He asked for an expansion of detail related to the transparency and confidentiality issue.

Mr. Walker was concerned that the structure under HB 9 could be handed off to anyone. He opined that it was the wrong direction for the state to put money into a project and not know what was being done or negotiated to ensure that Alaska was getting the best deal. He believed that a considerable amount items related to oil and gas in Alaska was not disclosed to the state. He stressed that an additional layer of confidentiality was "absolutely the wrong direction."

Vice-chair Fairclough thanked Mr. Walker for being an advocate of natural gas for the people of Alaska. She relayed that there were many rural communities that had been screaming for a fuel source for decades. The goal of HB 9 was to have a window of opportunity open to the state. She believed that AGIA could not go forward and agreed that TransCanada was not motivated; however, the state was in a predicament and HB 9 was a step forward and allowed a big diameter pipeline. She wondered why HB 9 was a barrier to Mr. Walker's ideas. She stated that the bill did not specify anything related to the size of the pipeline; numbers thrown against it were for a different route. She did not understand the opposition to an opportunity to move forward. She opined that it would take something along the lines of a special act from Congress (as with the Trans-Alaska Pipeline) to get a natural gas pipeline in Alaska regardless of the size. She believed that if the state failed to do something exceptional it would never see a pipeline.

Mr. Walker responded that the act of Congress had been used to bypass an environmental process in order to expedite the project. A right-of-way from Prudhoe Bay to Valdez had already been issued for a natural gas pipeline and a federal environmental impact statement in addition to approval from 23 state and federal agencies; therefore, he did not see the necessity of an act of Congress related to the project. He stressed that HB 9 was the wrong path because it did not solve the problem; additionally, as long as AGIA was in place it did have a volume limitation. His largest concern was that it did not do "anything good for the State of Alaska." He pointed to a Harris report showing that the cost of energy would drop by 65 percent in Bethel with a large volume line to Valdez. He agreed that the problem of high energy costs worsened in rural areas. He wondered what a small volume line would do for places like

Bethel and other areas of the state. He believed the bill sold the state short.

Vice-chair Fairclough replied that the legislature was playing by the existing rules; until the governor triggered the abandonment clause (the legislature could pass a law, but the governor could veto it) the state could not move forward. She emphasized that the bill did not specify a small diameter gasline; it said that the state would be in compliance with AGIA to move the process forward. She believed that using personal beliefs related to the legislation did not provide Alaskans the opportunity to see that the goal was to shed light on a path forward and the only path forward currently available to the legislature. She accentuated that the goal was to respond to Alaskans' need for reduced energy costs. She agreed that the desired outcome was the lowest energy cost, but she believed it was not possible under the scenario Mr. Walker had provided. She understood that a large diameter line was the right way to go, but that it was not currently an option. She supported efforts made for an all-Alaska gasline and stated that the bill also guaranteed an all-Alaska line.

[5:54:22 PM](#)

Co-Chair Stoltze referred to concerns about constraints of the AGIA process and of the bill. He surmised that Mr. Walker had provided his opinion about the myth of AGIA yielding anything and asked whether the assessment was fair. Mr. Walker agreed.

Co-Chair Stoltze did not believe that the big line used for comparison existed through the AGIA process.

Mr. Walker concurred. He did not believe anyone in the current legislature would vote for AGIA at present. He believed the legislature could send a message to the governor about requesting him to exercise the abandonment clause [in the AGIA contract]. He stressed that HB 9 was not the answer. He concluded that AGIA would inhibit the state's ability to be the state that it should be.

[5:56:27 PM](#)

DOUG SMITH, PRESIDENT and CEO, LITTLE RED SERVICES and CHAIR, THE ALLIANCE, supported the legislation. He relayed that high energy costs were inhibiting Fairbanks businesses

from being competitive in the marketplace. He believed the playing field needed to be leveled; a home run would be a large gasline, but a base hit would be affordable utilities for all residents. The Alliance recognized that the bill did not solve everyone's problems; however, he thought affordable energy may not reach those in need if the state waited for a large diameter gasline for the lowest possible price. He shared that he had worked on a gasline fee study in 2000; the project was large and would take certain economics to support an LNG line to tidewater. He stated that a primary objective was more affordable utilities to Alaskans.

Representative Gara discussed that a smaller gasline could set prices between \$10 and \$16 that consumers would be obligated to for 20 to 30 years. He asked whether Mr. Smith would remain supportive of the line if a large line came along, but the small line prevented consumers from having access to the cheaper gas. Mr. Smith answered that options needed to be kept open. He would take the price over some prices offered currently, especially if the price was predictable.

6:00:03 PM

RICHARD FINEBERG, SELF, FAIRBANKS (via teleconference), spoke in opposition to the bill. He believed the bill had been misguided from its inception. He stated that the major North Slope producers were the only ones who would benefit. He believed that confidentiality created a political circumstance in which bad things happened; if system safeguards were in place, the state would lose. He referred to TAPS and stated that the state lost \$3.4 billion due to tariff overcharges in 1985. He stressed that part of the reason the loss took place was because of confidentiality. He referred to documentation of the incident that he had provided the legislature in 1990. He continued to discuss the loss and referenced a U.S. Supreme Court decision that gave up refunds. He emphasized that history showed that the state did not get the low tariffs. He discussed that industry had stonewalled the state related to the tariffs. He asserted that the bill was a recipe for disaster because of increasing confidentiality, eliminating transparency, eroding checks and balances, eviscerating judicial review, and its failure to solve fundamental policy problems.

6:05:39 PM

JAMES MERY, VICE PRESIDENT, LANDS AND NATURAL RESOURCES, DOYON LIMITED, spoke in favor of the bill. He noted the need for affordable energy in rural and smaller communities. The company believed in options and that HB 9 had a significant amount of momentum; he believed it needed to keep moving. He spoke to the pursuit of oil and natural gas along the corridor. He urged the committee to support the legislation.

Representative Guttenberg asked whether an imminent domain issue was a concern to Doyon. Mr. Mery answered that the state exercised imminent domain on a regular basis. He noted that generally state law was an extension of imminent domain to a promoter of a project; he believed it had been obtained during the building of the TAPS line as well. The organization was not crazy about imminent domain issues but there was a process to sort out the value of property in state law that he believed Doyon could work with.

[6:08:53 PM](#)

LYNN WILLIS, SELF, EAGLE RIVER (via teleconference), shared that he supported the bill if it served to support the alignment of pipeline projects; however, he did not support the bill if it would focus on advancing a single project that would be built without regard to other projects. He thought all Alaskans cringed at the thought of having a large pipeline built with a duplicate smaller line running along next to it. He believed that it was time to define the various viable scenarios that would result in the necessary infrastructure to utilize the state's natural gas resources. He stressed that HB 9 must contribute to the goal of maximum use of the resource consistent with public interest and for the maximum benefit of Alaskans. He discussed several concerns. He wondered whether the bill provided the mechanism to allow construction of the Cook Inlet to Fairbanks segment independently from the segment to tidewater. He wondered whether the bill would allow a small diameter line from Fairbanks to Cook Inlet and a large line from North Slope to Fairbanks that could be used later as the first phase of a large line to tidewater, Canada, or the Lower 48. He wondered whether a line between Fairbanks and Cook Inlet would preclude the Glenn Allen spur line. He queried whether the bill provided for the possibility that the line could be used to transport gas from Cook Inlet to the major export line. He wondered

whether the bill's mandate that corporations shall analyze additional natural gas pipelines connecting to customers in other regions of the state included other connections such as surface transport of gas or gas products by rail, truck, and barge. He summarized that his support was contingent on the legislation's application to its total effort to exploit the natural resource for the benefit of Alaskans.

RICHARD PETERSON, SELF, ANCHORAGE (via teleconference), communicated that he had provided written testimony to the committee. He saw two issues with the bill that derived from HB 369. He stated that the legislature was evaluating a pipeline based upon conditions that AGIA placed on it; if there was going to be an AGIA line, the bills supported a line from Fairbanks or Glennallen to Southcentral. He questioned why the bill asked AGDC to look at a gasline from the North Slope past Fairbanks to South Central, but placed constraints that would only occur if an AGIA gasline was built. He recommended that the legislature ask AGDC to present two options to the people of Alaska: (1) the best spur line option if an AGIA line was built and (2) the best option from the North Slope through the Railbelt to Southcentral if an AGIA line was not built. He questioned why AGDC was evaluating a high pressure line that would transport liquids. He thought the idea may have made sense if the line was built to Canada where there was an existing market for liquids, but it did not make sense for Alaska instate use.

[6:14:30 PM](#)

Vice-chair Fairclough thanked Glenn Allen residents for their involvement and their testimony on the previous day.

BRAD HENSPETER, SELF, COPPER RIVER (via teleconference), spoke in opposition to the bill. He shared that the average homeowner needed affordable energy and believed that the gasline was the way to accomplish the goal to help people in Glenn Allen, Fairbanks, Delta Junction, Copper Center, Valdez, and other. He stressed that Copper River residents paid higher costs for goods and services due to high energy costs; the same was true for the state when it heated school buildings, transportation buildings, the legislative information office, and more. He relayed that it required more energy to heat a home in the Copper Basin than it did in Fairbanks. He recommended that committee members look at the scientific heating degree tables for Interior Alaska

communities showing that 55 percent to 60 percent of the coldest days happened from November to February; during the time it was not possible to use wind, solar, or hydro power. He discussed that biomass was a good option, but a vehicle would have to drive to each of the trees in the forest to harvest the energy; he opined that there would need to be many new roads to reach harvestable timber; the option may be cheaper than oil, but it would significantly change the landscape and it was very labor intensive. He encouraged a pipeline to Valdez with access for communities along the way; gas could be sold from the Port of Valdez to help pay for the line. He stressed that a large supply of fuel was needed to reduce costs.

LISA HERBERT, EXECUTIVE DIRECTOR, GREATER FAIRBANKS CHAMBER OF COMMERCE (via teleconference), vocalized support for the bill. She informed the committee that the chamber's board of directors had specified the high cost of energy as its top priority for the current year; the board's membership represented a diverse group of businesses, all of which were impacted by "staggering" energy costs in the Interior. She discussed a priority list that included the support of HB 9. The chamber would work diligently to ensure that issues such as fair tariffs would be addressed. She stated that natural gas to the community would allow for economic growth and lower costs for residents and businesses. Her energy costs were as much as her mortgage payment (approximately \$1,400 per month). She remained hopeful that the energy costs would be solved soon. She believed that the rest of Alaska would be hurting if the state's second largest city was hurting; she was fearful that the chamber would be handing out relocation packets to business members instead of welcoming new businesses. She urged the committee to pass the legislation.

[6:22:18 PM](#)

GEORGE PIERCE, SELF, KASILOF (via teleconference), voiced his strong opposition to the bill. He stressed that voters wanted a large instate pipeline. He was tired of producers holding the gas hostage. He believed the legislature could tell the governor no.

[6:23:55 PM](#)

CLAI PORTER, SELF, ANCHORAGE (via teleconference), strongly supported HB 9. He had spoken to builders and members of

the real estate community and believed that if the state did not solve its problem and make progress it would lose energy and population. He supported steady economic growth and he felt the bill was a move in the right direction. He did not believe the federal government would solve the problem. He believed the state should take the opportunity and that it could afford the project; the line would create jobs, provide needed fuels, and would serve all of the communities across the state. He added that the state could not wait 10 or 15 years to solve the problem.

[6:25:58 PM](#)

GENE THERRIAULT, VICE PRESIDENT, RESOURCE DEVELOPMENT and EXTERNAL AFFAIRS, GOLDEN VALLEY ELECTRIC (GVE), FAIRBANKS (via teleconference), voiced his support for HB 9. He discussed that the company provided electric needs for the Interior. He relayed that GVE had participated in the open season that AGDC had held in June 2011. The company hoped that resources would reach Interior Alaska at a price that would help to relieve the burden of current energy costs. The company supported state participation in the development of an AGDC pipeline and the associated development of an affordable tariff structure for residents. He understood that there was concern about the cost of spur line that would be needed to get gas to the greater Fairbanks and North Pole area off of the AGDC line; he trusted that their efforts would produce a commercially reasonable result. The company believed that a large volume line may still be constructed for export, but that it was prudent to continue the AGDC effort focused on instate needs. The work AGDC had done would still be very helpful if the governor requested that North Slope producers aligned under a new effort to build a large line to tidewater. He opined that the environmental design and right-of-way work of the agency would be beneficial if the recent exploration success in Cook Inlet resulted in new gas resources.

CHUCK WIEGERS, SELF, FAIRBANKS (via teleconference), supported HB 9. He believed that clean gas and inexpensive natural gas was the obvious replacement for diesel; the replacement would not happen overnight or without a plan. Efforts to truck gas from the North Slope would begin a process; the bill facilitated the next step and brought AGDC to an open season in 2013. Once the open season was conducted the agency could determine the best way to

deliver gas to the Interior at the lowest price possible. He expressed that the bill also provided AGDC the tools to deliver a project to bring gas to the Interior and would provide the flexibility to coordinate with the producers. He urged support of the legislation.

[6:30:38 PM](#)

AT EASE

[6:51:38 PM](#)

RECONVENED

DEBORAH BROLLINI, SELF, ANCHORAGE (via teleconference), testified in support of HB 9. She had wondered why Anchorage had to plan for brownouts in 2009. She referred to a recent earthquake and explained that she was not prepared to keep her family warm in an emergency or if there was a shortage of natural gas. She emphasized the need for additional energy infrastructure to assure utility services would not be interrupted. She expressed appreciation to the legislature for looking for solutions to the problem.

JULIE DUQUETTE, SELF, FAIRBANKS (via teleconference), testified in support of HB 9. She stated that the bill provided the framework to get gas to Fairbanks; the community was currently feeling the impact of high energy costs. She relayed that residents with fixed and low income were hit the hardest. She explained that money once spent on goods was now spent on fuel and electricity. She believed natural gas was the obvious replacement for much of the fuel used currently. She believed a trucking project that was underway by Flint Hills and Golden Valley Electric was a good start and an instate pipeline was the next logical step. She opined that taking action would help ensure residents' future while possible. The bill would allow AGDC to hold an open season in 2013 and to provide options for the construction of a pipeline to provide gas at the lowest possible cost. She encouraged support of the legislation.

[6:55:26 PM](#)

DAVID OWENS, OWENS INSPECTION SERVICES, PALMER (via teleconference), spoke in favor of HB 9. He was in support of recommendations by AGDC.

CHUCK RENFRO, HOME BUILDERS ASSOCIATION, ANCHORAGE (via teleconference), testified in support of HB 9. He echoed the prior speaker's testimony. He stressed the need for low cost gas in the Willow area and for prompt action.

[6:57:38 PM](#)

AT EASE

[7:07:06 PM](#)

RECONVENED

LEIGH SKILES, SELF, HOMER (via teleconference), testified in support of HB 9. She emphasized the need for affordable gas and noted that the bill represented a first step. She believed that the bill was about moving forward to obtain more information to make the future possible related to gas for Alaskans.

Representative Mike Hawker addressed the AGDC project plan and corrected what he felt was a misrepresentation of the facts. He noted that \$17 a million cubic feet (mcf) could be found in the AGDC plan (Commercial Analysis and Findings, page 3-3); the section summarized options for capacities and products. He explained that the tariff estimate calculated to a \$17 cubic foot delivery price was option number 4 (a 250,000 mcf per day) and involved conditioned natural gas and an enriched NGL [Natural Gas Liquids] stream. He clarified that the option was described as "unacceptable tariff," but was maintained as an option for comparative purposes. He emphasized that the number was included as a benchmark and not as the base scenario that the project had been built on.

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Representative Gara responded that AGDC had produced a report of options for a 250,000 mcf line and a 500,000 mcf line; the 500 mcf line only worked if there was an export component. He stated that the export component was questionable because under the study terms the cost of gas equaled approximately \$15 to \$16 when factoring in the cost of conditioning at a natural gas plant, possible expansion of the plant, shipping to Asia, and the cost of gas. He was skeptical that the state would find a great market for the price for the long-term in Asia. He observed that the option would be the 250,000 mcf line if the larger option did not work. He stressed that there was nothing in the

bill that said AGDC could not build a 250,000 mcf line. He did not appreciate being "accused of misleading anybody." He stated that smaller line would produce gas combined with NGL, which would make the gas cheaper, at roughly \$14 an mcf plus the cost of local distribution. He opined that the gas under the scenario was expensive. He thought that if the intention was to build a line larger than the 250,000 mcf that it should be stated in the bill. He stressed that the problem with the bill was that AGDC was given the power to move forward with the project, but it did not seem like the legislature would have the power to stop it. He referred to his upcoming amendment that would provide the legislature the power to stop the project if it looked like a bad idea.

[7:15:51 PM](#)

Representative Gara MOVED to ADOPT Amendment 4, 27-LS0075\K.4 (Bullock, 3/19/12):

Page 1, line 2, following "Corporation;":

Insert "requiring legislative approval before construction of an in-state natural gas pipeline developed by the Alaska Gasline Development Corporation;"

Page 4, following line 4:

Insert a new subsection to read:

"(b) The Alaska Gasline Development Corporation may not begin to construct an in-state natural gas pipeline before project sanction and before receiving authorization by law to proceed with the construction. In this subsection, "sanction" has the meaning given in AS 43.90.900."

Reletter the following subsections accordingly.

Page 5, line 15:

Delete "(c) and (d)"

Insert "(d) and (e)"

Co-Chair Stoltze OBJECTED.

Representative Gara explained that Amendment 4 would provide the legislature with the chance to stop the project if it produced gas that was too expensive. The amendment would prevent construction of a pipeline before project

sanction and before receiving authorization by law to proceed. He opined that the legislature did not want to give away the power to stop the project.

Representative Hawker testified in opposition to the amendment. He stated that the amendment said that AGDC could not begin to construct an instate gasline before a project was sanctioned and before receiving authorization by law. He relayed that the definition of "sanction" fell under AS 43.90.900, which was the AGIA statute; AGDC would be linked to the AGIA sanctioning process. He relayed that as defined in the statute, the term sanction was to make financial commitments to go forward with the project as evidenced by entering into financial commitments of at least \$1 billion with third parties. He stressed that the only reference to sanctioning within AGIA was AS 43.90.200, which required TransCanada (license holder under AGIA) to sanction within certain times and parameters. He believed the amendment would give TransCanada the ability to sanction the project.

Representative Hawker emphasized that the amendment was flawed and that AGDC was to provide the legislature with options to move forward with once it deemed a project was commercially reasonable. He stated that the bill contained specific provisions that required AGDC to follow its project plan. He accentuated that the project plan was not the 250,000 mcf; the base plan was the 500,000 mcf line to tidewater with an open season to determine its viability. He furthered that the bill contained specific requirements for AGDC to adhere to the principle of making gas available at the lowest possible cost to Alaskans. He stressed that AGDC would not be able to lock consumers into an unreasonable rate of gas for 20 to 30 years. He explained that state investment could not be made without express approval of the legislature; however, if a project could be developed by the private sector it would not require legislative approval.

[7:21:39 PM](#)

Representative Guttenberg suggested that the amendment addressed his concern that the state would have no say on the tariffs or other nature of the gasline; there could be a successor that took over the project in the future and the state would have no input. He acknowledged that the

amendment was flawed but stressed that the intent was clear.

[7:23:45 PM](#)

Representative Chenault testified in opposition to the amendment and asserted that AGIA already provided action without additional input from the legislature. He believed the only way the legislature would have any input was if it was asked for more sanctions or money to complete a project. He opined that the legislature should not be in the pipeline business because road blocks that it put up either slowed or quashed projects. He stressed that there were enough safe guards in the legislation as written and echoed that the legislature had the power of the purse strings.

Representative Gara surmised that there would be no opportunity for legislative approval of the project if additional money was not requested. He noted that subsequently there would be no recourse to binding consumers to high priced gas for 20 years or more. He thought the idea was bad and that the legislature should have a say in whether the project was good. He disputed that the legislature's ability to weigh in on the project would act as a road block and stressed that it would be the public's opportunity to express its opinion. He suggested that there could be better options down the road.

[7:27:14 PM](#)

Representative Gara stated that the amendment pertained to the definition of sanction under Section 43.90.900. He addressed that the definition of sanction had nothing to do with providing TransCanada or AGIA with any power over anything. He read the definition as follows:

Sec. 43.90.900. Definitions.

In this chapter, unless the context otherwise requires,

(22) "sanction" means to make financial commitments to go forward with the project as evidenced by entering into financial commitments of at least \$1,000,000,000 with third parties;

Representative Gara did not believe the amendment was flawed, but would accept an amendment with different language on project sanction if the sponsors' supported one.

7:29:16 PM

A roll call vote was taken on the motion to adopt Amendment 4.

IN FAVOR: Gara, Guttenberg  
OPPOSED: Wilson, Costello, Edgmon, Fairclough, Joule, Thomas, Stoltze

The MOTION FAILED (2-7).

Representative Gara MOVED to ADOPT Amendment 5, 27-LS0075\K.5 (Bullock, 3/19/12):

Page 1, line 2, following "Corporation;":  
Insert "requiring legislative approval before certain expansion of an in-state natural gas pipeline developed by the Alaska Gasline Development Corporation;"

Page 4, following line 4:  
Insert a new subsection to read:  
"(b) The Alaska Gasline Development Corporation may not expand the design capacity of an in-state natural gas pipeline to accommodate throughput of more than 500,000,000 cubic feet a day of North Slope gas to market before receiving authorization by law to proceed with the expansion."

Reletter the following subsections accordingly.

Page 5, line 15:  
Delete "(c) and (d)"  
Insert "(d) and (e)"

Co-Chair Stoltze OBJECTED.

Representative Gara explained that Amendment 5 would ensure that a violation of the AGIA statute would require the responsible entity to come to the legislature to get the

law changed; it would prevent the state from being liable for any trouble damages.

Representative Hawker communicated that the bill included language requiring that the pipeline would not violate AGIA covenants. He was concerned that the amendment would not allow AGDC to expand the design capacity beyond the 0.5 bcf per day before being authorized by law. He opined that the constraint violated one of the bill's most important concepts that would allow the alignment of an AGDC and AGIA project and the ability to exceed the 0.5 bcf per day limit. He maintained that the amendment could close out options.

[7:32:03 PM](#)

Representative Guttenberg referred to comments by Mr. Walker related to transparency. He referred to a court case that due to a lack of transparency the state had had little information to base decisions upon. The intent was to allow for legislative and public input and an understanding of the project.

[7:33:16 PM](#)

Representative Gara WITHDREW Amendment 5. He stated he was unhappy with the drafting of the amendment.

Representative Gara MOVED to ADOPT Amendment 6, 27-LS0075\K.16 (Bullock, 3/20/12):

Page 1, line 2, following "Corporation;":

Insert "requiring legislative approval for the Alaska Gasline Development Corporation to continue the development of an in-state natural gas pipeline after a certain amount of money has been spent to develop the project;"

Page 4, following line 4:

Insert a new subsection to read:

"(b) The Alaska Gasline Development Corporation may not continue the development of an in-state natural gas pipeline without legislative approval after the Alaska Gasline Development Corporation spends \$100,000,000 for the development of the in-state natural gas pipeline after the effective date of this section. Legislative approval may be

in the form of an appropriation to the Alaska Gasline Development Corporation for the purpose of developing an in-state natural gas pipeline."

Reletter the following subsections accordingly.

Page 5, line 15:

Delete "(c) and (d)"

Insert "(d) and (e)"

Co-Chair Stoltze OBJECTED.

Representative Gara stated that the amendment would require AGDC to report to the legislature to seek further approval after spending \$100 million; the legislature would have the ability to determine whether money had been spent wisely.

[7:34:11 PM](#)

Representative Hawker testified in opposition to the amendment. He stressed that the goal was to get government and politics out of the way. The legislature had appropriated \$200 million the prior year. He stressed that a project could only go as far as the legislature was willing to fund. The bill required that the Regulatory Commission of Alaska would review any proposed ownership changes. He felt that HB 9 contained adequate provisions to protect the public. He urged the committee not to lose sight that the public wanted a pipeline to move forward.

[7:36:07 PM](#)

Representative Wilson testified in opposition to the amendment and asserted that Fairbanks could not keep waiting.

Representative Guttenberg emphasized that following a deliberate and accurate path was due diligence, not slowing down the process. He stressed that the goal was to avoid mistakes.

[7:38:17 PM](#)

Representative Chenault referred to Mr. Walker and recalled his statements that the road to cheaper gas in Alaska was to retract AGIA, thereby removing restriction of the project. He discussed that the prior year the legislature

had approved a \$200 million appropriation for funding AGDC's work to get them to the open season. He furthered that including money already spent and the proposed fund, the total was between \$240 million to \$260 million. The entity had estimated that it would cost approximately \$400 million to get to the open season in 2013. He opined that the entity would be back the following year for an additional appropriation and that the legislature could have conversations on the project at that time. The AGIA process did not provide the same option; TransCanada had not disclosed the work done or the progress after \$500 million dollars. He reiterated that the bill included safeguards for the legislature to get more information on the project in the future.

[7:41:01 PM](#)

Representative Gara concluded that the public wanted the legislature to make sure that due diligence was done and that the public did not end up with high prices. He observed that Cook Inlet gas might better protect the consumer. He believed the legislature should see how money was spent and whether the project should go forward. He stressed that the legislature should have the ability to act if a better project with cheaper gas was identified; private companies should not be relied upon to make the decision.

A roll call vote was taken on the motion to adopt Amendment 6.

IN FAVOR: Gara, Guttenberg

OPPOSED: Wilson, Costello, Edgmon, Fairclough, Joule, Thomas, Stoltze

The MOTION FAILED (2-7).

[7:43:07 PM](#)

Representative Guttenberg MOVED to ADOPT Amendment 7, 27-LS0075\K.6 (Bullock, 3/19/12):

Page 1, line 2, following "Corporation;":

Insert "relating to the tariff for transporting natural gas liquids in an in-state natural gas

pipeline developed by the Alaska Gasline Development Corporation;"

Page 6, following line 10:

Insert a new subsection to read:

"(h) If the Alaska Gasline Development Corporation or a joint venture, partnership, or other entity that includes the Alaska Gasline Development Corporation elects to be subject to regulation under AS 42.05 or AS 42.06, the Alaska Gasline Development Corporation shall propose and support separate rates for the transportation of gas liquids to be paid by the shippers of gas liquids."

Reletter the following subsection accordingly.

Co-Chair Stoltze OBJECTED.

Representative Guttenberg explained that the amendment took the straddle plant off of the backs of Fairbanks and the Interior rate payers and gas users. He discussed a flow schematic that was divided into the North Slope facilities (including conditioning and compressor plants and NGL pumps), a compressor station north of the Yukon, and a straddle plant in Fairbanks with a continuation to an NGL extraction facility in Cook Inlet. The rate base in the project plan placed the sole responsibility of the straddle plant on Fairbanks. He maintained that Fairbanks would not be taking any NGL; the NGL would be taken off in Southcentral. The cost of the plant should be to the rate payers or shippers, not just the Interior users of the gas. The amendment would place the cost on the shippers that would use the NGL.

[7:45:55 PM](#)

Representative Hawker testified in opposition to the amendment and maintained that it was technically flawed. He explained that the amendment provided a provision that its consequences were effective if AGDC elected to be subject to regulation under the Public Utilities Act or the Alaska Pipeline Act. He stressed that the provision was not an option based on a regulatory amendment that had passed the prior day; the adopted amendment required that AGDC must operate under the contract carriage statutes in HB 9. He accentuated that the goal was to keep the legislature out

of rate decisions. He discussed that the concept of the initial plan was for a wet gas pipeline and two straddle plants that would be the financial responsibility of the users; the concept created a burden due to the relatively small population of Interior Alaska. He surmised that a dry gas pipeline could increase costs to the Interior. He reiterated the desire to keep the state out of anticipating "single hypotheticals in a world of unlimited hypotheticals."

[7:48:47 PM](#)

Representative Guttenberg noted that the amendment had been drafted prior to other amendments. He asserted that the plant would not benefit the people of Interior Alaska, but those down the line who would take the NGL. There would be no issue if there was dry gas down the road because there would be no need for a straddle plant. He believed the Interior would be subsidizing the rate payers at the end of the line.

[7:50:59 PM](#)

A roll call vote was taken on the motion to adopt Amendment 7.

IN FAVOR: Gara, Guttenberg

OPPOSED: Wilson, Costello, Edgmon, Fairclough, Joule, Thomas, Stoltze

The MOTION FAILED (2-7).

Representative Guttenberg MOVED to ADOPT Amendment 8, 27-LS0075\K.7 (Bullock, 3/19/12):

Page 1, line 2, following "Corporation;":

Insert "relating to the tariff for transporting natural gas in an in-state natural gas pipeline developed by the Alaska Gasline Development Corporation;"

Page 6, following line 10:

Insert a new subsection to read:

"(h) If the Alaska Gasline Development Corporation or a joint venture, partnership, or other entity that includes the Alaska Gasline

Development Corporation elects to be subject to regulation under AS 42.05 or AS 42.06, the Alaska Gasline Development Corporation shall propose and support rates for the transportation of gas to delivery points along the in-state natural gas pipeline that are based on the costs to deliver natural gas to each delivery point and that do not include the costs to make deliveries downstream from each delivery point for which a separate rate is set."

Reletter the following subsection accordingly.

Co-Chair Stoltze OBJECTED.

Representative Guttenberg explained the amendment would make tariffs distance sensitive. He was concerned that there could be successors who did not agree that more people had to be paying for tariffs or other. He furthered that at some point there could be gas taken off at the Yukon River. The amendment would mean that users would pay tariffs based on the point where the gas was taken off of the line.

[7:53:32 PM](#)

Representative Hawker testified in opposition to Amendment 8. He observed that the opportunity was not available in the bill due to previously adopted amendment. He discussed that related to the transportation of gas rates would be proposed and supported that were based on the cost to deliver natural gas to each delivery point (that did not include the cost to make deliveries downstream from the delivery point). He asserted that the amendment required AGDC to pass costs onto Fairbanks if there was a straddle plant constructed in the area; it would be the incremental cost of making dry consumer ready gas available to Fairbanks. The sponsors did not want to burden the Interior with an inappropriate or unnecessary cost structure; they believed in moving forward to an open season where the market could determine the best project. He stressed that cost checks were included in the legislation and felt the amendment would be counterproductive.

[7:55:59 PM](#)

Representative Gara understood that the amendment sponsor was working to protect his community from the high prices of gas. He opined that the gas prices under the proposed project were phenomenally high. He explained that he could not support the amendment due to problems he had with the legislation. He explained that the amendment would result in higher prices for Anchorage and maintained that Interior costs would be high and that other options would result in cheaper prices.

[7:57:25 PM](#)

Representative Wilson asked for a clarification on the costs to users related to the straddle plant.

Representative Chenault explained that under the current plan the rates were tied to the straddle plant. Under a distance sensitive plan rates would be tied to the costs to deliver.

[7:59:34 PM](#)

Representative Guttenberg surmised that the lateral line and the straddle plant would be borne by Fairbanks.

TOM WRIGHT, STAFF, REPRESENTATIVE MIKE CHENAULT, explained that the bill included an additional tariff for the straddle plant and the lateral line to Fairbanks.

A roll call vote was taken on the motion to adopt Amendment 8.

IN FAVOR: Wilson, Guttenberg

OPPOSED: Costello, Edgmon, Fairclough, Gara, Joule, Thomas, Stoltze

The MOTION FAILED (2-7).

[8:01:33 PM](#)

Representative Gara MOVED to ADOPT Amendment 9, 27-LS0075\K.14 (Bullock, 3/19/12):

Page 2, lines 1 -3:

Delete "relating to the Alaska Natural Gas Development Authority; relating to the

procurement of certain services by the Alaska Natural Gas Development Authority;"

Page 16, line 20, through page 19, line 16:  
Delete all material

Renumber the following bill sections accordingly.

Page 21, lines 30-31:  
Delete "38.34.060; AS 41.41.030, 41.41.040, AS 41.41.050, and 41.41.080"

Insert "and 38.34.060"

Co-Chair Stoltze OBJECTED.

Representative Gara explained that the amendment worked to preserve the powers of Alaska Natural Gas Development Authority (ANGDA) that had been established by statute. The entity had been looking for the most cost effective options to deliver gas on the road system and to rural Alaska. He believed the entity served a valid purpose and did not want to see its powers weakened.

Mr. Wright clarified that the legislation would not eliminate AGNDA. The only duty that had been taken away from the entity was the role of a builder. He detailed that references (AS 41.41.030) related to the ANGDA board of director's term of office had been deleted; Section 18 established that ANGDA would be governed by the AHFC board of directors. He furthered that the bill removed redundant information; 41.41.040 was the removal and vacancy of the ANGDA board of directors, 41.41.050 was the board quorum and voting, and 41.41.080 was legal counsel (Section 20 that allowed ANGDA to have legal counsel).

[8:03:21 PM](#)

Representative Gara believed that the bill removed ANGDA's power to pursue a gas pipeline that would result in lower costs to Alaskans. He opined that page 19 of the legislation abolished the ANGDA board, which would become the AHFC board. He did not believe the action was consistent with voter initiative.

A roll call vote was taken on the motion to adopt Amendment 9.

IN FAVOR: Gara, Guttenberg

OPPOSED: Wilson, Costello, Edgmon, Fairclough, Joule,  
Thomas, Stoltze

The MOTION FAILED (2-7).

[8:04:25 PM](#)

Representative Gara MOVED to ADOPT Amendment 11 [Amendment 10 was previously offered as an amendment to Amendment 3.]:

Page 2, line 27 through Page 3, line 2  
Delete all material

Renumber the following subsection accordingly.

Co-Chair Stoltze OBJECTED.

Representative Gara explained that the amendment removed two sentences from the bill that he believed were inaccurate. First, it would remove "passage of this Act constitutes a finding of public convenience and necessity," given his belief that the legislature should make the finding. Second, it would delete that the project selected by AHFC was in the best interest of the state. He did not know how anyone on the committee could know that to be true. He stressed that future pipelines could be more attractive.

[8:06:23 PM](#)

Representative Hawker testified in opposition to the amendment. He believed the amendment would reduce the effectiveness of the legislation.

Vice-chair Fairclough noted that AGIA had passed in 2008; the state had been waiting four years to find out whether there was a valid project. She opined that the legislation provided a window for the legislature to look forward as it awaited information from AGIA.

Co-Chair Stoltze recalled from Mr. Walker's testimony that AGIA had "put the nail" in ANGDA.

[8:08:33 PM](#)

Representative Gara pointed to subsection 6, page 3, line 1 of the legislation and explained that it said the pipeline chosen by AHFC was in the state's best interest. He maintained that the legislature did not know what the pipeline would be and queried how anyone could know. He guessed that it was an unconstitutional delegation of authority.

A roll call vote was taken on the motion to adopt Amendment 11.

IN FAVOR: Gara, Guttenberg  
OPPOSED: Wilson, Costello, Edgmon, Fairclough, Joule, Thomas, Stoltze

The MOTION FAILED (2-7).

[8:09:50 PM](#)

Representative Guttenberg MOVED to ADOPT Amendment 12, 27-LS0075\K.18 (Bullock, 3/20/12):

Page 4, line 5:

Delete "Upon commencement of construction of"  
Insert "When designing"

Co-Chair Stoltze OBJECTED.

Representative Guttenberg explained the amendment. He read from page 4, line 5 of the bill:

Upon commencement of construction of an in-state natural gas pipeline, the Alaska Gasline Development Corporation shall analyze additional gas pipelines connecting to industrial, residential, or utility customers in other regions of the state.

Representative Guttenberg removed the language "upon commencement of construction" and replaced it with "when designing." He stressed that the time to determine the demand was during the design process.

[8:11:02 PM](#)

Representative Chenault opposed Amendment 12 and maintained that it would add a huge cost to the legislation and was not the right time in the process. He related that once

construction started the engineers responsible for the design would have time to look at designs for other possibilities and to bring them into alignment.

Representative Guttenberg asserted that the designers would only need to look at the instate demand study that had been done and to determine whether anyone else wanted something. He discussed that there were infrastructure projects farther out than the Railbelt. He stated that it was never too early to understand what the project was prior to the commencement of design or construction.

Representative Chenault observed that designing the project included environmental impact studies, right-of-way studies, and other. He believed the process was time consuming. He opined that design of gas distribution systems could occur during the construction process.

Representative Guttenberg clarified that the amendment related to the commencement of design, not construction.

Representative Chenault responded that designing the project had to do with the development of tariff rates from one location to another. He stated that the state could spend years designing different gas extension proposals to serve every community instead of concentrating the project at hand, which was the development of a pipeline project.

[8:14:37 PM](#)

A roll call vote was taken on the motion to adopt Amendment 12.

IN FAVOR: Gara, Guttenberg

OPPOSED: Wilson, Costello, Edgmon, Fairclough, Joule, Thomas, Stoltze

The MOTION FAILED (2-7).

Representative Joule observed that he would have liked to see a tax cap on some communities; however, it had not fit within the legislation. The amendment would have resulted in a net zero and would have allowed two boroughs to function in a more fiscally responsible way.

Representative Hawker appreciated the concept brought forward by Representative Joule and relayed his commitment

to help find an appropriate legislative vehicle for the issue.

TOM LAKOSH, SELF, ANCHORAGE (via teleconference), spoke in opposition to the bill. He felt that HB 9 may be premature given the possibility of the development of a line with natural gas. He was very concerned that there were not sufficient checks and balances in the legislation. He urged review of Cook Inlet development, the option to truck or rail LNG to Fairbanks, or propane from the North Slope. Based on the cost estimates he believed the legislation was a "boondoggle" that would serve no one but the builders. He hoped the committee would reconsider the legislation. He pointed to a potential Susitna dam project that may benefit from a superconductor; research showed that superconductors were capable of being run by LNG instead of liquid nitrogen. He believed the legislature should look at the entire energy distribution systems throughout the Railbelt in conjunction with other transmission schemes. He reiterated that the bill was premature. He discussed other energy resources including fossil fuels or electricity generation form.

Representative Gara relayed that one amendment remained that he had worked with the sponsor on. He asked for the status.

Co-Chair Stoltze responded that the committee would take up any remaining amendments the following morning.

[8:20:23 PM](#)

Representative Wilson noted that the North Star Borough met during the evening and provided support for the legislation.

Co-Chair Stoltze CLOSED public testimony.

HB 9 was HEARD and HELD in Committee for further consideration.

ADJOURNMENT

[8:21:34 PM](#)

The meeting was adjourned at 8:21 PM.