

HOUSE FINANCE COMMITTEE
March 23, 2012
9:05 a.m.

9:05:08 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:05 a.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

Representative Wes Keller, Sponsor; Representative Mike Hawker, Co-Sponsor; Rena Delbridge, Staff, Representative Mike Hawker; Joe Dubler, Vice President and Chief Financial Officer, Alaska Gasline Development Corporation and Director of Finance, Alaska Housing Finance Corporation, Department of Revenue.

PRESENT VIA TELECONFERENCE

Larry Persily, Federal Coordinator, Alaska Natural Gas Projects, Federal Coordinator's Office, Washington D.C.

SUMMARY

HB 9 IN-STATE GASLINE DEVELOPMENT CORP

CSHB 9(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Revenue.

HJR 16 CONST. AM: EDUCATION FUNDING

HJR 16 was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Office of the Governor.

HB 64 PERMANENT MOTOR VEHICLE REGISTRATION

HB 64 was SCHEDULED but not HEARD.

#hjr16

HOUSE JOINT RESOLUTION NO. 16

Proposing amendments to the Constitution of the State of Alaska relating to state aid for education.

[9:06:04 AM](#)

REPRESENTATIVE WES KELLER, SPONSOR, discussed that HJR 16 put before the voters the choice to allow indirect assistance for students attending private schools. The bill was directed at the Blaine Amendment; he noted that constitutional delegate Vic Fischer called the amendment a standard feature of all western state constitutions, which had been implemented after a vote failed to include it in the U.S. Constitution. He explained that the bill did not institute any programs, but allowed the state to develop programs that would provide indirect aid to students in Alaska.

Vice-chair Fairclough moved the bill before the committee. Representative Wilson OBJECTED for discussion.

Representative Doogan asked for detail related to a similar amendment that had been voted down 2 to 1 at the Alaska Constitutional Convention.

Representative Keller provided an excerpt from a book by Vic Fischer related to the issue. He informed the committee that after Blaine Amendments had been included in western state constitutions a proposed amendment had been offered to include the words "and indirect" in the language; the

updated language would have included a prohibition against providing direct and indirect assistance. He read from the excerpt:

Proponents of the proposed amendment stressed the importance of protecting the integrity of public education while the opponents argued for the provision of services to the individual students if otherwise in keeping with the constitution.

Representative Keller furthered that the amendment had failed 34 to 19. He discussed that support for the issue had been 64 percent and 55 percent in two recent polls in Alaska. He believed the polls were consistent with the objective proposed in HJR 16.

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Co-Chair Stoltze remarked that while the polls provided useful information, the legislature was also guided by the values of its members and other views.

Representative Wilson pointed out that HJR 16 would take the issue to voters for a decision. She had received letters from parents of special needs children and explained that some children in public schools needed more than the schools could provide. The bill would allow the system to address their needs in a private school setting. She stressed that the bill was not taking a "shot" at public schools; she felt it allowed parents to choose a school based on their child's needs and not on what they could afford. She believed that the "sad thing" was that the details would be determined (the parameters the department would apply and how schools would qualify for vouchers) if voters passed the issue. She stressed that a significant number of single parents could not afford an option outside of the public school system. She spoke in support of providing voters with the choice.

Representative Gara provided information about the constitutional history. He relayed that the Alaska constitutional delegates [Jack] Coghill and Rivers [Representative Gara subsequently clarified that he had meant delegate Metcalf instead of Rivers] had both expressed their desire for a free public education system in the state. He read a statement from former Representative Coghill:

I believe the way our government was set up 175 years ago that the founders felt that public education was necessary to bring about a form of educating the whole child for the civic benefit through the division of point of the home taking a certain part of the child, the church taking a certain part of his education, and the government or state through public schools taking the other part. I feel that the intent of public education is primarily a state function and does not belong to any private or any one particular group.

Representative Gara read a statement from delegate [Irwin] Metcalf:

There are 16 states that have sections in their constitution preventing public tax dollars from being spent for private schools in any way, shape, or form.

Representative Gara read from the constitution that had been drawn in 1945:

No money shall ever be taken from the public treasury directly or indirectly in aid of any church, sector, denomination, or religion; or in aid of any priest, preacher, minister, or teacher thereof as such.

Representative Gara expounded that delegate Metcalf had been a "firm believer in the complete separation of church and state, especially with the use of state money and state property." He communicated that the delegates had chosen not to fund private schools for a reason. He elaborated that once there was state funding of private schools, factions would develop in the legislature; there would be a group that believed private school funding was very important and there would be a group in favor of public education. He opined that support for public education funding would be lost because there would be a rift in the legislature. He did not fault people for having differing views on education; however, a public education system kept people "all in the same boat" with the goal of having the best public schools possible. He believed that the result would be a worse and underfunded education system. He had no problem with people attending private school; many private schools offered scholarships. He stressed that the state had done a phenomenal job offering alternative schools within the public education system. He pointed to

publicly funded boarding schools and charter schools in larger Alaskan communities.

9:17:50 AM

Representative Gara pointed out that public education had been improving. Graduation rates and proficiency scores were increasing because there had been a significant amount of funds invested in public schools in recent years; the formula had been adjusted that he felt had previously discriminated against rural Alaska. He stressed that funding parity had helped rural areas, children needing special education, and with Teachers' Retirement System (TRS) debt. He believed the improvements would be reversed if state funding was extended to private education; he did not support the legislation.

Representative Joule had attended a Catholic boarding school in high school and had paid his own way. He believed he had gotten the best education that he could have received. He expressed frustration related to the separation between church and state; he opined that freedoms had become so far reaching that people forget or prevent the items that are important to individuals from entering the classroom. He understood respecting people's rights and responsibilities, but asked "what about respecting everybody else's." He understood the opportunities that could arise out of the bill, but he had not seen all of the detailed information. He wondered how many students would be counted in the Base Student Allocation (BSA), how much additional funding would be necessary, how much the transportation costs would increase, etc. He understood that people wanted to spend money on education, but there were questions in his mind that had been unanswered. He believed a debate on the bill on the House floor would be healthy, but he would have to be convinced that it was the right thing to do.

9:23:07 AM

Representative Neuman had spent time at a private school, but attended a public high school. He believed his time at the private Catholic school was very beneficial. He discussed that the school had provided basic academic courses in addition to religious studies; he had learned things in Catholic middle school that were taught in his senior year in public school. He discussed the home

schooling of his own children. He had chaired the education committee during his first two years in office. He believed the education system in Alaska was not a one-size-fits-all system; he pointed to rural schools with 10 students where the cost could be \$40,000 or \$50,000 per student per year and urban schools that had up to 1,400 or 1,500 students. He opined that regional learning centers were "fantastic" and would probably be part of Alaska's future. He asked what the funding to private or Catholic school would be. He discussed the BSA; correspondence programs were 80 percent of the base. He wondered whether private schools would receive the base allocation if they were funded by the state. He stated that schools currently were trying to grow their student population in order to obtain more funds; however, increased student numbers led to overcrowding in the classrooms. He believed the bill would provide parents with more opportunities and would put the decision in their hands. He stressed that Alaska had many various educational opportunities and led the nation in correspondence programs.

[9:28:09 AM](#)

Representative Neuman believed that it was important to give parents a choice about their children's education; he spoke in support of the resolution because he felt that it gave parents the choice. He opined that the public school system was currently facing a significant number of issues. He emphasized that the issue was about what was best for the kids.

Representative Guttenberg recalled a past conversation with constitutional delegate Jim Doogan who had explained why the issue was a "no." Mr. Doogan had been a very active member of the church and had explained that once there was public money in a private school the door was opened to control issues; he had wanted no part of the control and firmly believed in keeping his church separate from the state for that reason. He stated that parents currently had a choice where their children were educated; the question was related to who paid for the choices. He had gone to Hebrew school, which had been paid for by his parents. He pointed out that it was problematic that "when money follows, control follows, and budget issues follow." He was honored to have received the information from a delegate who had been a part of the decision making process. He relayed his opposition to the bill.

9:33:53 AM

Co-Chair Stoltze relayed that he would vote to move the bill from committee. He discussed that government had a way of "mucking things up" in school systems. He hated to risk ruining private schools that were offered as an alternative to public education, but he supported the bill because philosophically he supported school choice.

Representative Doogan stressed that the issue should not be taken lightly; even passing the bill from committee with "no recommendation" gave people information about what the course of the debate would be. He stressed that he would not vote for the bill for reasons beyond his father telling him not to and not only because his father was strong in his support for private schools. He discussed that he had gone to private school for 16 out of 18 years. He was opposed to dividing people up based on their religious beliefs. His father did not believe that the civil institutions should use religion to make decisions; he believed there should be a clear line between the two. He furthered that the wording of the constitutional statement on education read that "no money shall be paid from public schools for the direct benefit of any religious or other private educational institution." He opined that the statement could not be any clearer.

Representative Doogan believed the bill would inevitably damage the system; he was against allocating money based on people's religious beliefs, economic situations, or other. He did not agree with a statement made by Co-Chair Stoltze; he did not believe that the obvious failures of the education system should be the reason for the legislature to contemplate its complete dismantling. He opined that people in the rich districts would get together to improve their educational system and the people in the poor districts would have to deal with social, economic, and other handicaps. He voiced strong opposition to the bill.

9:39:37 AM

Representative Doogan referenced the quote "I'm a man of principle and my first principle is flexibility."

Co-Chair Stoltze interjected that the quote came from former U.S. Senate Minority Leader Everett Dirksen of Illinois.

Representative Doogan liked to think he was flexible, but he was inflexible on the issue. He relayed that he would vote against passing the bill from committee. He did not see the sense in "inflaming the passions of people" on the question. He believed that if the resolution passed the outcome would be unknowable related to an election and what would happen if the issue became law. He stressed that the flaws of the current education system would be nothing compared to the fight that would result if the issue went to the voters; it was not possible to know what would happen if state funds were stripped from the current educational system and allocated out in "unequal ways."

Co-Chair Stoltze wanted the record to accurately reflect his prior statement. He communicated that there was no pressure to let the bill move forward. He understood that it was a serious issue.

Representative Doogan clarified that he had not meant to mischaracterize any prior statements made by Co-Chair Stoltze. Co-Chair Stoltze was glad there was passion related to the issue.

Co-Chair Thomas noted that 8 out of 55 constitutional delegates had been born in Alaska; he wondered who could have more passion than a person born and raised in the state. He noted that the constitution had been amended in the past and that the resolution was not the first attempt to make an amendment. He stated that it was the state's ordained right to change the constitution if it thought something was wrong or flawed; the issue may fail, but he believed people should have the option to vote on it. He had spoken to family members about the past move from Native schools to public schools; people had thought the education system would fall apart. He had not been a big proponent of the resolution at first, but he had reflected on his own children's education. He wondered what was wrong with letting parents choose where their children would be educated. He opined that there was nothing wrong with religious schools; he had been in church three or four days a week during his youth.

[9:45:48 AM](#)

Co-Chair Thomas remembered that he had learned to pray in Vietnam. He was in support of moving the bill out of committee and would probably vote for it on the House floor. He noted that the Alaska Federation of Natives supported the concept because they wanted their children to have the ability to receive a stellar education. He thought the people should decide. He did not want to stifle the voice of the people. He believed children should receive the best education possible. He discussed his district and the school options when he was a youth. He would vote for what he thought was right for the children.

A roll call vote was taken to report the bill out of committee.

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

The MOTION PASSED (8-3). There being NO further OBJECTION, it was so ordered.

HJR 16 was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Office of the Governor.

[9:49:38 AM](#)

AT EASE

[9:50:05 AM](#)

RECONVENED

#hb9

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."

[9:55:27 AM](#)

LARRY PERSILY, FEDERAL COORDINATOR, ALASKA NATURAL GAS PROJECTS, FEDERAL COORDINATOR'S OFFICE, WASHINGTON D.C. (via teleconference), clarified that he did not want to tell state government what to do on any proposed legislation. He provided a highlight of current market conditions in Asia and the Lower 48 related to U.S. Liquid Natural Gas (LNG) export project financing. He would provide an overview of the potential for LNG exports, whether LNG prices would remain high in Asia, whether Alaska could compete on price, and whether the U.S. market would ever recover. Cheniere Energy (Cheniere) was currently the only company that had the U.S. Department of Energy (DOE) approval to export U.S. gas to non-free trade nations including China and Japan; 8 other projects were pending while DOE awaited a study on natural gas export that would look at how it would affect the U.S. Gross Domestic Product (GDP), the economy, consumer prices, and other. He relayed that Cheniere did not currently have the Federal Energy Regulatory Commission (FERC) certificate; however, it was expected to be granted shortly and the company hoped to begin construction during the present year.

Mr. Persily discussed that Cheniere opened as an LNG import terminal in 2008/2009 when people believed that the U.S. would be short of natural gas. The plant had a "huge" import terminal that had the capacity to take in and distribute 4 billion cubic feet per day; however, the market had changed and the U.S. was not buying natural gas. As a result the company's debt was downgraded to junk. The company had looked at higher prices in Asia and decided to convert to a dual-use facility by incorporating liquefaction and shipping into its receiving and regasification capabilities. He stressed that customers were needed for the success of a project.

Mr. Persily shared that Cheniere had succeeded in signing up four customers (BP Group, Gail India, Korea Gas Corporation, and Spain's largest gas and power utility company Gas Natural Fenosa) for 20 years at approximately 2 billion cubic feet per day. The first two production trains were scheduled at Cheniere's Sabine Pass terminal by 2016; the second two were scheduled for 2017. He elaborated that all four companies had signed the equivalent of shipper/taker pay contracts that were more appropriately termed use-or-pay contracts. The companies had all agreed to pay between \$2.25 and \$3.00 per million British Thermal

Unit (BTU) to reserve liquefaction capacity at the plant for 20 years even if they did not use it; the contracts represented binding commitments in the amount of \$45 billion over the 20 year period. Cheniere had until the end of 2012 to get its FERC certificate and financing in line or the companies could bail out on the commitment. He elaborated that the only way the company could get financing was through contracts where another company would pay the debt. The contracts called for the customers to buy gas based on U.S. Henry Hub prices plus a 15 percent upcharge for the gas that would be consumed during liquefaction. He detailed that the costs of the liquefaction charge, the price of gas, and the cost of a tanker traveling to Asia would be used to determine the cost in Asia; a Henry Hub gas price of \$3.00 would mean an LNG price in Asia of approximately \$9.00; \$6.00 gas in the U.S. would mean a price of about \$12.00 in Asia. Historically LNG prices in Asia had been tied to global oil prices, but the Cheniere contract was tied to U.S. natural gas prices. The cost of the liquefaction plant and improvements would be approximately \$10 billion; the company had obtained \$2 billion in private equity financing from Blackstone and would get the rest by issuing debt. Cheniere would accrue interest at approximately 17 percent on its construction financing.

Mr. Persily reiterated that there were eight other pending projects in the U.S. and a few more out of British Columbia. He stated that the market would decide the projects that would move forward and that would obtain financing; the market would not support 12 export projects.

Mr. Persily moved on to address the Asian market in general. He detailed that Australia currently had eight LNG export projects under development, which represented approximately \$180 billion.

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Mr. Persily detailed that the Australian projects would quadruple the country's export capacity to more than 10 billion cubic feet per day; by 2017 the country would overtake Qatar as the world's leader. Between the two countries the total LNG export capacity would be approximately 21 billion cubic feet per day. He detailed that in 2010 about 29 billion cubic feet of LNG had been exported/imported internationally. There were currently

expansions, new projects, and developments underway in Indonesia, Papua New Guinea, Angola, and Russia. He furthered that in Mozambique the companies Anadarko and ENI had announced discoveries that totaled 60 trillion cubic feet; the companies were looking towards Asia as an export market. He pointed out that the projects all represented competition, but he acknowledged that the price was very good in Asia at present. Current spot market prices for April delivery to Asia were close to \$16 per million BTU, but the market was waiting to see whether Japan would restart some of its nuclear plants. He stressed that the outcome could significantly impact long-term prices.

Mr. Persily continued that the high price of energy in Japan was beginning to effect behavior and utilities were pushing back looking for ways to cut costs; the executive director of Tokyo Gas Company was quoted as saying "cutting raw material costs is one of the major goals." The company had signed a long-term contract to purchase LNG from a group project in Australia that would turn coal-bed methane into LNG; the company executive had reported that costs for coal-bed methane were significantly lower. He pointed to pushback in China and India; the Chinese government set the natural gas price at about \$5, which had worked okay until importers began paying two to three times the amount. The Chinese government was currently testing the raise of the cap to \$12 per million BTU in two provinces; the hope was that it would spur increased domestic production. He explained that at present China produced about 80 percent of the gas it needs. The prior year it had imported about 3 billion cubic feet of gas per day; split roughly 50/50 between LNG and pipeline gas from Turkmenistan.

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Mr. Persily relayed that in January 2012 China buyers had paid an average of \$10 per million BTU of pipeline gas and a range of \$3.50 to \$18 for LNG (the low end had been gas taken on old contracts that had been signed at good prices and the high end was on current higher prices). India also set its price of gas and was instituting pricing reform in order to spur domestic production. He posed the question - would there be more domestic production in India and China in the long-term and how would the markets react to higher prices.

Mr. Persily discussed that current gas prices in the U.S. were horrendous and were at 10-year lows; the situation was ugly and was worsening and the country could run out of storage capacity later in the year. Most industry analysts believed that eventually supply and demand would regain balance. He pointed to various forecasts for long-term U.S. gas prices: Shell projected pricing at \$6; Anadarko expected gas to reach \$5 to \$7 by 2016; Goldman Sachs saw a price recovery beginning in 2013; Deloitte predicted gas at \$6.50 in upcoming years. He stressed that the numbers only represented projections. He believed it made sense for any producer of oil and gas in Alaska to look at all markets, but the private money would select the project that would get built in the U.S. In closing he shared that the risk in Alaska was great relating to the extensive timeline it took to build in the state, the cost, and market volatility. He opined that the state would have to help with the risk in some way or another if Alaska ever had a sizable gas project.

Representative Gara asked for verification that spot market sales tended to be higher than long-term prices. Mr. Persily responded that it depended on demand, but typically a premium was paid for spot market sales because the commodity was not under contract.

Representative Gara surmised that Alaska could not run a pipeline on spot market prices. He did not believe the state could routinely start and stop pipeline flow. Mr. Persily replied that the liquefaction plant was the problem; the plants did not run well "stop-and-go." A revenue stream was necessary in order to obtain financing; long-term financing was needed.

Representative Gara asked whether it was accurate that Cheniere was aiming at a price of \$9 to \$12. He wondered whether it was a fair benchmark for the other potential U.S. export facilities. Mr. Persily responded that Cheniere was not a producer; he likened it to a toll road. The company did not really care what the price of gas was because it would just make money as the gas moved through the plant. He added that given the pricing structure it looked like \$3 U.S. gas could be delivered in Japan at about \$9. He remarked that it would be interesting to see if DOE allowed another export project and if another project could obtain contracts. He relayed that the whole industry was watching to determine whether people would

want gas priced to Henry Hub, which was currently lower than oil prices.

10:10:39 AM

Representative Gara asked whether it was possible to assume that if any of the other eight companies working to get DOE approval for export would send gas out at a similar price.

Mr. Persily believed that new export plants would have to compete on Cheniere's pricing structure. He speculated that it could be different for a producer; producers moving their own gas would sell the gas for as much as they could. He opined that presently many producers would probably be happy to sell the gas at almost any price due to the current over supply in the U.S. He shared that there would be a significant amount of uncertainty around pricing until a second round of contracts came forward in the U.S. and commitments were made.

Representative Gara wondered how competitive gas through a plant in Alaska would be on the Asian market. He referred to the ASAP report [Alaska Stand Alone Gas Pipeline] that showed the tariff to Big Lake for a 500 mcf line would be \$7.75. He surmised that the report assumed \$2 for the cost of gas on top of the \$7.75.

Mr. Persily shared the same recollection, but noted that he had not reviewed the report recently.

Representative Gara speculated that it would be another \$2 in local gas distribution costs to get from Big Lake to Nikiski or another tidewater facility. Mr. Persily did not believe that the cost would be that high on the Enstar system, but he had never priced the cost out.

Representative Gara asked whether Mr. Persily had a more accurate number. Mr. Persily replied that someone in the room or Enstar could probably provide a more accurate number. He added that unless there was a liquefaction plant the gas would have to be moved by pipe to tidewater.

Representative Gara asked what the cost of conditioning the gas at a liquefaction plant would add to the total cost.

Mr. Persily answered that it was very difficult to estimate. The price Cheniere was charging was public and it

was a fairly cost effective plant because the facility already had the docks and storage tanks built. The liquefaction costs would depend on the size of the plant and how much infrastructure needed to be built. He believed that when Wood MacKenzie had done its study for the Alaska Gasline Port Authority the prior year for a very large liquefaction plant at Valdez (capable of sending out 2.7 billion cubic feet per day) liquefaction costs had been around \$4; the study had acknowledged that the number was a very rough estimate and that the plant was very expensive. Any company looking to get into the LNG market in Alaska would look at the cost and the size of the project to what the market was willing to pay; if the liquefaction costs were too high the company would have to figure out how to reduce them.

[10:14:50 AM](#)

Co-Chair Thomas thought it would be cheaper to get gas from Alaska compared to other locations from around the world including British Columbia and Mexico. He surmised that shipping costs would be less expensive from Alaska to Asia.

Mr. Persily agreed. He relayed that tanker charges from Alaska to Japan would be significantly less than from Texas or Louisiana to Japan even with the expanded Panama Canal open in 2014. He had seen estimates that the tanker charge could be \$1.50 to \$2.00 less per million BTU; however, shippers/producers on the Gulf of Mexico coast had the gas at tidewater. There would be a cost of several dollars to move the gas from Prudhoe Bay to tidewater in Alaska, which would wipe out the savings from the shorter tanker run. From Prudhoe to port in tidewater plus the tanker charge would have to compete with gulf coast facility tanker charges and liquefaction costs.

Co-Chair Thomas remarked that that was his point.

Representative Gara asked for a tanker cost estimate from Alaska to Asia. Mr. Persily had seen estimates for tanker charges from Alaska of approximately \$1 or slightly less per million BTU. He reiterated that tanker charges were cheaper, but the transportation cost from the North Slope needed to be added to the total cost.

Representative Gara estimated that the multiple costs involved equaled roughly \$15.75: \$7.75 tariff; \$2.00 gas

price; Enstar distribution cost he estimated at \$1; \$4.00 liquefaction; and \$1 tanker costs. He referenced that the ASAP study acknowledged that its cost estimates could be off by 30 percent. He wondered how easy it would be for Alaska to get long-term contracts at roughly \$16 gas.

Mr. Persily replied that the specific figures in the ASAP report were not shown in current dollars; the numbers assumed some inflation and were a levelized tariff in dollars of the day over 20 years in the pipeline. He furthered that it was possible that LNG prices in Asia could also inflate over time; in the scenario the current \$13 to \$15 would be higher over the next 20 years. Company marketing departments gambled on the issues. He surmised that Alaska gas would always tend to be on the high cost side because an 800-mile pipeline with a tariff put the gas at a cost disadvantage with others.

Representative Gara asked whether there was ample time to determine if a large pipeline could be constructed that would produce cheaper gas, given what was known about Cook Inlet reserves. He noted that the way the legislation was written the legislature could not stop the project unless state funds were required.

[10:20:37 AM](#)

Mr. Persily could not speculate on the life expectancy or exploration success in Cook Inlet. He remarked that everyone would like to see the biggest possible project to move the most gas because it would provide the cheapest energy to Alaskans, but he could not say how much gas was available in Cook Inlet or how long it would last. He was hopeful that exploration work in the area would be successful.

Representative Gara believed that if the gasline proposed in HB 9 was built that consumers would be obligated to pay for the price and the gas for a long period, given that the pipeline shipper would not build without a long-term contract. He wondered what about the length of a contract that may be required for Alaska consumers.

Mr. Persily could not provide a specific answer, but he explained that if he wanted to borrow money on a development the lenders would want to know that he had a revenue stream that would cover the mortgage. For example,

it would be necessary to convince a lender that there was a 15-year revenue stream that would cover a 15-year mortgage. He furthered that it would depend how long the debt was for, which would dictate how long the contract would be to use the pipe to produce the revenue to pay off the mortgage. The mortgage could be stretched out over a number of years with lower payments and higher interest or it could be accelerated and paid off more quickly.

[10:23:20 AM](#)

Vice-chair Fairclough clarified that the legislation did not specify the size of the pipeline. She remarked that cost estimates and variables discussed during the meeting were a speculation. She explained that the bill provided a framework for the project; the bill required economics, a safe construction, and other. She stressed that none of the assertions made regarding the project numbers were included in the bill.

REPRESENTATIVE MIKE HAWKER, CO-SPONSOR, agreed.

Co-Chair Stoltze thanked Mr. Persily for his time.

Representative Gara MOVED to ADOPT Amendment 13 27-LS0075\K, which would amend previously adopted Amendment 3 (copy on file):

Amendment 3, Page 2, line 26, after "commission."

Insert:

"The commission may, by order, extend the 180 day review period by the duration of any delay caused by a public utility's failure to submit supplemental information that is available to the public utility."

Co-Chair Stoltze OBJECTED for discussion.

Representative Gara explained Amendment 13 that would amend previously adopted Amendment 3. He had worked with Representative Hawker and staff to reach a compromise on what would occur if the Regulatory Commission of Alaska (RCA) did not make a decision in 180 days. The current bill included a provision specifying that the lack of a decision by the RCA within 180 days was deemed to be approval. The amendment addressed a situation in which a utility did not

provide the necessary information to the Regulatory Commission of Alaska, which prevented it from making the decision within the 180-day timeframe. The amendment reached a middle ground and allowed the RCA more time if the utility did not provide the information to the commission. A party could not withhold information in order to beat the 180-day deadline.

Representative Hawker concurred and deferred the response to his staff.

10:26:46 AM

RENA DELBRIDGE, STAFF, REPRESENTATIVE MIKE HAWKER, agreed that a compromise had been reached; the sponsors were comfortable with the amendment.

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment 13 was ADOPTED. He referred to the fiscal note.

Representative Hawker remarked that the sponsors had endeavored to provide the committee with the best possible resources.

Vice-chair Fairclough pointed to the fiscal impact note from the Department of Revenue. The note would provide an allocation to the Alaska Gasline Development Corporation (ADGC) and funded varying position counts including, 22 in FY 13 (7 of which were included in the governor's request), 45 in FY 14, 48 in FY 15, 61 in FY 16, and 54 in FY 17 and FY 18. The total cost included in the governor's FY 13 request was \$3,629,400.

Representative Neuman thought that Amendment 13 was worded incorrectly. Co-Chair Stoltze would come back to the issue after the fiscal note discussion.

Representative Gara asked whether the ADGC cost estimate associated with the legislation was approximately \$400 million to get to project sanction.

JOE DUBLER, VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, ALASKA GASLINE DEVELOPMENT CORPORATION AND DIRECTOR OF FINANCE, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, replied that the total estimated cost for the pre-sanction activity would be \$400 million. Approximately \$30

million in costs had been incurred to date; therefore, about \$370 million in additional funds would be necessary.

Representative Gara wondered why the cost was not in the fiscal note.

Mr. Dubler replied that the fiscal note included \$286 million in capital costs to get through FEL 2 (i.e. stage 2) and an open season. Subsequently ADGC would need an additional appropriation to continue the project into its third and final phase (pending a successful open season).

Representative Gara asked for verification that the second appropriation would bring the total up to the \$400 million figure. Mr. Dubler replied in the affirmative.

Representative Guttenberg pointed to a graph on page 2 of the fiscal note and wondered whether the first column should read "FY12" instead of "FY13." Mr. Dubler responded that the numbers were for FY 13 and were intended to conform to page 1; the \$3.6 million in the second column was included in the governor's request and the first column showed the appropriation requested for the FY 13 capital budget.

Representative Gara wondered whether he could ask Mr. Dubler the questions that Mr. Persily had not been able to answer earlier in the meeting related to the ASAP project cost estimates.

Co-Chair Stoltze asked whether the questions were related to the fiscal note.

Representative Gara replied that the questions were related to the cost of the project.

[10:31:55 AM](#)

AT EASE

[10:33:44 AM](#)

RECONVENED

Co-Chair Stoltze brought attention back to the fiscal note.

Vice-chair Fairclough clarified the record related to the Amendment 13. She explained that the amendment was specific to Amendment 3 that had been previously adopted.

Vice-chair Fairclough MOVED to report CSHB 9(FIN) out of committee with individual recommendations and the accompanying fiscal note.

Representative Gara OBJECTED for discussion. He pointed to page 310 of the ASAP project plan. He understood that the more preferable scenario was the 500 mcf line. Figure 3-3 assumed the export of 250 mcf possibly from Nikiski. He referenced a tariff to Big Lake at \$7.75.

Mr. Dubler explained that the 3-3 used inflated dollars for the 500 mcf base case estimated tariff. Figure 3-4 included current dollars at \$5.63. He communicated that it was not appropriate to compare the number with current dollars.

Representative Gara surmised that the inflated figure represented what the tariff would cost in the future when the gas was potentially delivered. Mr. Dubler answered in the affirmative; the number reflected a 3 percent per year inflation rate.

Representative Gara asked for verification that ADGC estimated a \$2 cost for gas. Mr. Dubler responded in the affirmative.

Representative Gara asked for the ADGC cost estimate for distribution from Big Lake to tidewater. Mr. Dubler replied that the only thing that ADGC assumed was the gas to Big Lake. The liquefaction producer would bring the gas from Big Lake to its facility; the figure was included in the ADGC liquefaction process cost estimates.

Representative Gara asked what the additional increment would be for liquefaction and transportation between Big Lake and tidewater.

Co-Chair Stoltze asked Mr. Dubler to continue the conversation with Representative Gara outside of committee. Mr. Dubler replied in the affirmative.

Representative Doogan pointed to FY 13 estimated capital costs included in the fiscal note and wondered whether the \$286 million figure plus \$200 million that had already been appropriated represented the total cost. Mr. Dubler responded in the negative. He explained that the \$286 million would be the expenditure of the \$200 million plus

some additional expenditures submitted by different departments related to work on the project (Department of Environmental Conservation, Department of Natural Resources, Department of Transportation and Public Facilities, and other).

Representative Doogan thought he heard a \$400 million figure referenced.

Mr. Dubler replied that \$400 million was the total capital expenditure estimate that would be required up to the sanction process; the \$286 million represented a portion of the \$400 million figure.

Representative Doogan surmised that the total cost would be the \$286 million plus the balance that would reach \$400 million. Mr. Dubler clarified that the balance would be less the amount that had already been expended.

[10:39:20 AM](#)

Representative Wilson asked for verification that the costs and tariffs would be divided by users throughout the state. From Dunbar to Fairbanks (including a straddle plant if needed) would be paid by the Fairbanks users. From Dunbar to the end location in Anchorage (plus a straddle plant if needed) would be paid by Anchorage. She surmised that Anchorage would pay a tariff of \$9.63 and Fairbanks would pay \$10.45, which represented an \$0.82 difference per million BTU. Currently Fairbanks was paying \$23.35; therefore, it would see a 55 percent decrease in gas price. She believed there would be a 66 percent decrease the more the community "got off of heating oil."

Mr. Dubler responded in the affirmative. He added that Anchorage would have a less than 10 percent increase in the cost of gas. He stated that the project would supply gas to Fairbanks and Anchorage for an indefinite amount of time.

Representative Wilson recognized that the legislation was not perfect, but she believed the momentum needed to continue on the framework and figures; therefore, she supported the bill. She communicated that Fairbanks would watch closely to ensure that the figures did bring affordable gas to the community.

Representative Doogan commented that he had not been present for the prior night's meeting due to health reasons and he expressed intent to offer at least one amendment on the House floor.

A roll call vote was taken on the motion to report the bill out of committee.

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

The MOTION to report the bill from committee PASSED (9-2). There being NO further OBJECTION, it was so ordered.

CSHB 9(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Revenue.

Co-Chair Thomas highlighted that the opportunity to truck gas to Tok, Delta, Haines, or other had not ever been mentioned in the discussion. He would vote for the bill, but wanted people to understand that there was more to Alaska than Anchorage, Fairbanks, and Mat-Su.

Representative Guttenberg remarked that he had brought the issue up.

Representative Hawker assured Co-Chair Thomas that the sponsors had been prepared to respond to the questions. He relayed that a significant focus of the bill was about establishing a backbone that would provide a way to get the majority of the gas from the North Slope reserves to tidewater in Southcentral. The bill specifically empowered ADGC to bring gas to any communities that could be reached in an economically feasible way, which included the propane project on the Yukon River that the Alaska Natural Gasline Development Authority had worked on. He communicated that it would then be up to the legislature to develop a vision for future development. He referenced a Norwegian model that used a fleet of compressed natural gas tankers that could work off of tidewater to provide coastal deliveries around the state. He stated that the legislature's own vision was the only limitation on what could be served in Alaska.

Representative Edgmon agreed with the comments made by Co-Chair Thomas. He thanked the sponsor for adding intent language that further clarified that the application could be statewide in nature. He believed that natural gas would be the great equalizer in terms of bringing affordable energy to all areas of the state.

Co-Chair Stoltze thanked the staff and committee for the hours spent on the legislation.

#hb64

HOUSE BILL NO. 64

"An Act relating to permanent motor vehicle registration; and providing for an effective date."

HB 64 was SCHEDULED but not HEARD.

#

ADJOURNMENT

[10:45:59 AM](#)

The meeting was adjourned at 10:45 AM.