

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

February 6, 2012

1:05 p.m.

MEMBERS PRESENT

Representative Eric Feige, Co-Chair
Representative Paul Seaton, Co-Chair
Representative Peggy Wilson, Vice Chair
Representative Alan Dick
Representative Neal Foster
Representative Bob Herron
Representative Cathy Engstrom Munoz
Representative Berta Gardner
Representative Scott Kawasaki

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

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."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 9

SHORT TITLE: IN-STATE GASLINE DEVELOPMENT CORP

SPONSOR(S): REPRESENTATIVE(S) CHENAULT

01/18/11	(H)	PREFILE RELEASED 1/7/11
01/18/11	(H)	READ THE FIRST TIME - REFERRALS
01/18/11	(H)	RES, FIN
02/06/12	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

REPRESENTATIVE MIKE CHENAULT

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Spoke as prime sponsor of HB 9.

REPRESENTATIVE MIKE HAWKER
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Spoke as a sponsor of HB 9.

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

POSITION STATEMENT: During the hearing on HB 9, provided information and answered questions.

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

POSITION STATEMENT: During the hearing on HB 9, provided information and answered questions.

TOM WRIGHT, Staff
Representative Mike Chenault
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: On behalf of Representative Chenault, prime sponsor, provided a sectional analysis of HB 9.

ACTION NARRATIVE

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CO-CHAIR PAUL SEATON called the House Resources Standing Committee meeting to order at 1:05 p.m. Representatives Herron, P. Wilson, Dick, Kawasaki, Gardner, Foster, Feige, and Seaton were present at the call to order. Representative Munoz arrived as the meeting was in progress.

HB 9-IN-STATE GASLINE DEVELOPMENT CORP

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CO-CHAIR SEATON announced that the only order of business would be 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."

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CO-CHAIR FEIGE moved to adopt the proposed committee substitute (CS) for HB 9, Version 27-LS0075\U, Bullock, 1/19/12, as the working document. There being no objection, Version U was before the committee.

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REPRESENTATIVE MIKE CHENAULT, Alaska State Legislature, speaking as prime sponsor, paraphrased from the following written sponsor statement [original punctuation provided]:

Nearly two years ago, the Legislature passed HB 369 advancing an instate natural gas pipeline. Since that time, the Alaska Gasline Development Corporation [AGDC] has made tremendous progress developing a project along a solid timeline. It is imperative to maintain that momentum in pursuit of instate gas for Alaskans, while keeping open all options for participating in an aligned project.

This legislation will refine a solid, early proposal into a plan that the Legislature can decide to sanction or not. This legislation does not sanction construction of an instate gas pipeline, but allows AGDC to advance to that stage. The bill will also provide AGDC the tools to build its capacity to be a strong, participating partner in an aligned gasline project.

Along with a comprehensive update on progress to date, this summer AGDC presented the Legislature with a series of recommendations enabling the next stage in project planning. Those recommendations are incorporated within this committee substitute.

It is my intention to provide AGDC the tools that will allow them to refine a plan to the point of sanctioning by the Legislature. The state has invested hundreds of millions of dollars over the years in pursuit of our dream of gas, but we've consistently been held back by various roadblocks, internal and external, political and commercial. I want to clear those for this project.

This legislation is enabling and does no harm. It would facilitate gas development in the state of Alaska even if the project already on the table - AGIA [Alaska Gasline Inducement Act] - develops. It would also facilitate instate gas should we see the alignment of interests and projects the Governor is encouraging among commercial parties and others interested in both commercialization of North Slope gas and delivering Alaska's gas to Alaskans.

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REPRESENTATIVE CHENAULT added that HB 9 incorporates a number of other pieces of legislation that the House of Representatives has already dealt with. It incorporates House Bill [369] [Twenty-Sixth Alaska State Legislature] which started an Alaska gasline development corporation pipeline fund. That fund was funded last year with \$200 million in the capital budget, but until that piece of legislation is passed that money is just sitting there. Also incorporated into the proposed bill is HB 215, pipeline project judicial review, which would limit the challenges of right-of-way leasing decisions similar to the protections that were offered during the Trans-Alaska Pipeline System (TAPS) project. Another bill incorporated into HB 9 is HB 189, which would allow AGDC to enter into confidentiality agreements. A number of other things would be done by HB 9, most of which were requested by AGDC. He said HB 9 would get rid of roadblocks and would allow [AGDC] to get to a point of seeing whether there is a project to sanction.

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REPRESENTATIVE MIKE HAWKER, Alaska State Legislature, speaking as a sponsor of HB 9, endorsed Representative Chenault's presentation of what Version U would do. He said he has been working with Representative Chenault since the introduction several years ago of the bill that started this project. That legislation created the Joint In-State Gasline Development Team

within Alaska Housing Finance Corporation (AHFC), and that team has accomplished and surpassed his greatest expectations for developing a project plan and advancing this project. He explained that HB 9 would formalize the project and would also formally recognize the Alaska Gasline Development Corporation (AGDC) as an entity in state statute that is able to go forward and develop this project. The Joint In-State Gasline Development Team would be disbanded because it would no longer be necessary with the establishment of AGDC.

REPRESENTATIVE HAWKER said the proposed legislation is a reasonable package of empowerments commensurate with the state mission of getting state gas to benefit Alaskans the most. This package of empowerments would broadly enable AGDC with the authorities it needs to participate in any gasline development possibility within the state. It is recognized that legislators are not in the position to be saying that Alaska's gas shall be marketed in exactly a certain manner. Being that prescriptive has already been proven as not being the most efficacious method of marketing Alaska's gas. The proposed bill is very much intended not to be specific, but to provide the broad support and authorities AGDC needs to move Alaska's gas to market. It would provide a framework that ultimately allows the State of Alaska to participate in the development of its own gas, eliminate competing objectives around the state, and bring the state's commercial interests, community interests, and industrial interests together to finally see a project started.

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CO-CHAIR SEATON offered his understanding that the vision of HB 9 is that AGDC would be able to participate as an owner in any gas pipeline in Alaska.

REPRESENTATIVE HAWKER responded yes, a foundational premise of Version U is that it enables AGDC to specifically design, construct, and owner/operate a pipeline on its own, or participate with other entities as a joint venture partner or working interest holder or otherwise, for the purpose of building a project that enables delivery of gas from any point in the state to any point in the state that is in the best interest of the state's communities.

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REPRESENTATIVE HERRON inquired whether the proposed bill is a pressure vessel or a lubricant for gas delivery by anyone to Alaskans.

REPRESENTATIVE CHENAULT replied it is currently unknown exactly which it will be. A number of people envision a gasline to different areas of the state. By all intent, the letter of the law is being followed; for example, gasline size. While he cannot say today whether this gasline will go to Anchorage or to Valdez, the alignment that must happen for a project to go forward is happening. No matter how big a gasline people wish for, it is economics that will drive the line's size, where it will go, and who it will service. He said his intention is to make sure that as many Alaskans as possible are serviced by either this pipeline or products off of this gasline.

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REPRESENTATIVE CHENAULT added that while he cannot say what that will look like in the next 5-20 years, he can say that over the past 30 years a number of projects have been shelved for one reason or another. He said his intention with HB 9 is to ensure the state has a project that is going forward and that it not bring gas just to Southcentral which has gas from Cook Inlet. While gas from Cook Inlet helps Southcentral, it does not necessarily help Fairbanks or Bethel or other areas of the state. He said he thinks the natural resource that is 800 miles away at Prudhoe Bay can be developed, and developed reasonably, and provide a profit to the citizens of Alaska and the State of Alaska. So, while he cannot say whether it is just a vessel or a real project, he can say the state will never have a gas pipeline as long as it continues to kill any project out there.

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REPRESENTATIVE HAWKER, addressing Representative Herron's question, offered his belief that the proposed legislation is crafted to empower and enable AGDC to both push and pull an Alaska gas pipeline project together. It would empower AGDC to push its own economically viable project to bring Alaska's gas to Alaskans and it enables AGDC to pull together the various interests in the state in marketing Alaska's gas. So, it is a symbiotic relationship that attempts to eliminate the competing objectives that have plagued the state to date and bring all Alaskans together and all the commercial interests together into an alignment that actually gets a pipeline project started.

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REPRESENTATIVE KAWASAKI noted that the Alaska Natural Gas Development Authority (ANGDA) was established by a 2002 ballot measure which stated that an all-Alaska gasline would maximize jobs, maximize revenues to the state treasury, and provide access to gas for Alaskans. The measure was billed as a way to have an Alaska gasline in full production by 2007. He observed that HB 9 would pull ANGDA under the auspices of the Alaska Gasline Development Corporation (AGDC), and asked why that would be necessary and whether ANGDA could stand on its own to do what HB 9 would do.

REPRESENTATIVE CHENAULT answered that he cannot explain all the ambiences of ANGDA. For a number of years he was one of ANGDA's biggest supporters and as co-chair of the House Finance Committee he tried to make sure that ANGDA had the necessary funding for moving its projects forward. He said he believes ANGDA has done some good work, especially dealing with propane. However, other people may say that ANGDA did not accomplish its job. The issue with trying to put ANGDA into HB 9 deals more with being able to utilize the good work that ANGDA has done and to try to put it into a program that may go forward. He said AGDC is moving forward, while for whatever reason ANGDA never made it off the ground, but that was not due to the lack of trying by some legislators.

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REPRESENTATIVE P. WILSON inquired how the authority would be given to AGDC and would there be any oversight of AGDC.

REPRESENTATIVE HAWKER responded that this question goes to the one asked by Representative Kawasaki about the role of ANGDA to the future. He explained that within HB 9, AGDC is recognized as a stand-alone public corporation that will be managed administratively by a statewide board of directors. At this time, that board of directors would be the board of directors of the Alaska Housing Finance Corporation (AHFC), which represents very broad interests across the state of Alaska. Likewise, HB 9 would preserve the integrity and complete existence of ANGDA under the same board of directors. Essentially, both organizations are preserved with a common board of directors, bringing aligned management and aligned mission to these two entities and eliminating competition between them. The bill would empower AGDC to be a project developer and manager - a construction company - whereas ANGDA's mission is being

clarified and refined to that which will enable it to be the entity that markets Alaska's gas; ANGDA will take, handle, and manage the monetization of Alaska's gas in joint relationship under common management. This would not be something that just happens by itself, it would be very much under the management of a board of directors.

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REPRESENTATIVE P. WILSON noted that the Alaska Railroad is an entity by itself, but when it wants to do something major it comes back to the legislature for permission. She asked whether [AGDC and ANGDA] will be required to report to the legislature once in awhile.

REPRESENTATIVE HAWKER answered that the ultimate decision to move forward to sanction, develop, and commit to executing a project still remains with the legislature. The proposed bill would not sanction any project; it would allow the further refinement and development of a project that must come to the legislature for funding and execution.

REPRESENTATIVE P. WILSON said she wanted to make sure that that was on the record in case there are any questions and so that Alaskans across the state can know.

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CO-CHAIR FEIGE said his reading of HB 9 is that it would authorize construction of any pipeline and would not necessarily favor one project or route over another. Putting that into the context of what is already in progress, he noted that AGDC has applied for an environmental impact statement (EIS) and the only route that has been presented as part of that EIS goes from the North Slope to Southcentral direct to Anchorage. He understood there was one other route that went along the Richardson Highway and then from Glennallen over to Southcentral, but for a variety of reasons that route was tossed out. Given that [the EIS] is currently in progress, he said the perception to him and his constituents is that the winner has already been picked and HB 9 is simply to get all the stars aligned to support that which has already been decided.

REPRESENTATIVE HAWKER deferred to AGDC administrators for an explanation of the decision-making process that went into the project routing and management for the EIS. From the standpoint of legislators, he said that HB 9 would change the definition of

in-state pipeline to be any sort of project that delivers gas in-state from Point A to Point B. The sponsors are looking to establish an entity that will be durable and a part of Alaska's future all across the state. It is not looking to be a single activity entity; it will not build a pipeline and then go away. The idea is for it to be Alaska's in-state gas facilitator, where ever and how ever a project might develop that is economically viable. He emphasized that [the sponsors of HB 9] absolutely are contemplating a long-term gas future in the state, something that must begin by getting a viable project started that monetizes gas and further empowers this entity to then continue to look out for the best interests of all communities across the state.

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CO-CHAIR SEATON noted that the bill title on page 1, line 6, states "development or construction of an oil or gas pipeline" asked whether there is any restriction in HB 9 that would limit this to natural gas or would there be authority to build oil pipeline. He pointed out that one option of the low flow study from TAPS was a 30- to 36-inch oil pipeline down maybe to Glennallen and then conversion of the 48-inch TAPS pipeline to a lower pressure gasline. He asked whether [HB 9] would also qualify for the building of that oil line or the oil line in association with converting that section of TAPS into a gasline.

REPRESENTATIVE CHENAULT responded that HB 9 would amend the section of oil and gas statute that deals with oil and gas pipelines so that it would deal with just gas, and therefore oil is in the title of the bill.

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CO-CHAIR SEATON commented that during the sectional analysis it can be figured out whether the authority is also there for oil. In monetizing gas, he said he would like to understand the low flow study option of building a 30- or 36-inch oil line right along the TAPS line and then converting the current 48-inch TAPS pipeline to a gasline and delivering gas that way all the way to Glennallen. He inquired whether that would be covered under the options of HB 9. He said he is bringing this up because it was brought to legislators by Alyeska Pipeline Service Company as one of the options in the low flow conditional studies.

REPRESENTATIVE HAWKER replied that the definitions in Section 7 of HB 9 answer the co-chair's point. This section defines

"Alaska Gasline Development Corporation" as "the corporation created ... for the purpose of planning, designing, financing, developing, constructing, owning, and operating an in-state natural gas pipeline". The section further defines "in-state natural gas pipeline" as "a pipeline for transporting natural gas in the state." Thus, if it involves a pipeline and it involves transporting natural gas, it is within the scope of the proposed legislation.

CO-CHAIR SEATON said this will be talked about going forward to ensure that those things brought to the committee by industry as potentials are included. He understood that the object of HB 9 is to get a broad sweep to monetize gas and he wants to know how far that goes.

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REPRESENTATIVE GARDNER read from the Regulatory Commission of Alaska's web site, which states that the commission is authorized [under Alaska Statutes 42.04 - 42.06 and other statutes] to do the following [original punctuation provided]:

... regulate public utilities by certifying qualified providers of public utility and pipeline services and to ensure that they provide safe and adequate services and facilities at just and reasonable rates, terms, and conditions. This keeps rates as low as possible while allowing the regulated entities an opportunity (but not a guarantee) to earn a fair return.

REPRESENTATIVE GARDNER understood that Sections 25-27 of Version U would exempt this proposed pipeline from regulation by the Regulatory Commission of Alaska (RCA) and asked the reason for this proposed provision.

REPRESENTATIVE CHENAULT answered that the RCA was asked to review [the proposed provisions] for any problems it may have with them, but he has not yet heard back. He said that when talking utilities, this pipeline would be RCA controlled. That control would come in when there is an actual pipeline and there is an agreement to sell that gas to a utility. At that point the RCA would step in to make sure that consumers are protected.

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REPRESENTATIVE HAWKER added that in the broadest sense [Sections 25-27] have been referred to as the RCA exemption, but he does

not feel that exemption is the correct connotation. He said the driving force behind these proposed provisions is to eliminate duplicative regulation and eliminating regulation where one agency of the state is attempting to regulate another agency. One significant element is the issue of not regulating a contract between AGDC, a state public entity, and a utility because at the end of the day consumer protection exists in the regulation between the utility and the consumer. Thus, consumer protection is maintained but duplicate regulation is eliminated. A second element is the issue of the certificate of public convenience and necessity determination finding that the RCA would do for a project brought forward in the public sector as a private effort, in which the RCA determines whether there is a valid public purpose to the project. In this case, if a project goes forward, it would be a legislative decision. He submitted that if the legislature chooses to move a pipeline project forward a regulatory agency should not be second-guessing the legislature's determination that it is in the best interests of the state.

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REPRESENTATIVE P. WILSON observed that page 4 of the sectional analysis states that Section 27 would exempt AGDC from oversight by RCA until all debts have been paid [on the project]. She further observed that Section 28 [would exempt AGDC and any pipeline developed ... from the Pipeline Act, which,] generally speaking, places pipelines and pipeline carriers in Alaska under the regulations of the RCA. She requested further explanation of these two sections.

REPRESENTATIVE HAWKER explained that Section 28 is the issue of the Alaska Pipeline Act, which is where the requirement for the certificate of public convenience and necessity exists. He reiterated that the reason for this exemption is so there is not an agency charged with second-guessing the legislature when it comes to making those determinations of the public value and benefit. If the legislature makes that decision, he said he believes that should be over-riding. Section 27 gets into the financing portions of this work. It is an entity controlled by the Alaska Gasline Development Corporation that is exempt for the period in which the debt is incurred. That is to enable the AGDC entity to go into the open market to contract for long-term debt. This provision is so that when going to the market there can be efficient execution of that debt agreement, thereby avoiding penalties and unnecessary constraints on that transaction. The better execution of a debt transaction that

the state can get, the less costs are ultimately accumulated that would then have to be recovered through the tariff structure. Once the debt is paid the exemption from AS 42.05 would go away and the project would become subject to [RCA] regulation.

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REPRESENTATIVE P. WILSON surmised that [on a federal project] the Federal Energy Regulatory Commission (FERC) might regulate the size of the pipeline; however, at the state level, Version U would preclude the RCA from being involved and making those types of restrictions.

REPRESENTATIVE HAWKER replied that if AGDC entered the debt market, it would go there with the firm transportation commitments and with contracts potentially between itself and utilities to be purchasing this gas. These would be AGDC's assets or collateral. Once that commitment is made in the open marketplace, this would prevent a regulator from coming in sometime in the future and changing those rates to not allow recovery of all the costs. It would provide certainty in the financial marketplace for the period in which debt is outstanding.

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REPRESENTATIVE P. WILSON offered her understanding that when the RCA looks at tariffs it is supposed to allow for profit, which would be to pay back those costs. She requested some examples of why this provision is being proposed.

REPRESENTATIVE HAWKER deferred to AGDC, its counsel, and the RCA to answer the question because it gets into technical, project-specific details.

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CO-CHAIR FEIGE presented a scenario in which the legislature decides to go forward with a gasline and to finance a portion of it. One option would be to put it on the open market and by AGDC not falling under the RCA for that period of time, it would give the potential lenders the certainty that adequate revenue could be reaped for repaying the bonds.

REPRESENTATIVE HAWKER answered that providing certainty and assurance in the financial marketplace is very definitely the

conceptual effort behind these provisions. The codicil to that, he added, is that the public, the consumer, maintains its protections through the RCA through the regulation of rates between utilities and the consumer.

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REPRESENTATIVE MUNOZ inquired how this new arrangement would comport with the commitments made by the State of Alaska under the Alaska Gasline Inducement Act (AGIA).

REPRESENTATIVE HAWKER responded that under Version U the project that was undertaken by the Joint In-State Gasline Development Team would become acknowledged as the Alaska Gasline Development Corporation. He said the project is, and always has been, structured, designed, and committed to be fully compliant with the AGIA framework.

REPRESENTATIVE CHENAULT added that he looks at these provisions as giving the in-state gas pipeline project some of the same powers that the state has given to TransCanada and ExxonMobil through the AGIA process. The half billion [cubic feet] under which this proposed pipeline has been designed to operate is in keeping with the framework of AGIA.

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CO-CHAIR SEATON, in regard to not having RCA or Pipeline Act regulations, asked whether there is a potential that firm transportation commitments from producers are not needed when going to the bonding community because the State of Alaska is being relied upon as the owner of this project.

REPRESENTATIVE CHENAULT replied that the intent is to have firm commitments and not put the state at risk.

CO-CHAIR SEATON stated that when the AGDC representatives testify he would like them to provide clarification and details about the exclusion and whether excluding firm transportation commitments is to be the basis of the bonding.

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REPRESENTATIVE HAWKER added that in moving this proposed bill forward, it is neither his nor Representative Chenault's intent to dictate how a project is ultimately financed. The Joint In-State Gasline Development Team was entrusted with that mission

and now it would be AGDC. The benchmark and check is that to go forward the project must come back to the legislature for sanctioning and funding. Tradeoffs will be looked at by AGDC when bringing a project forward. One tradeoff is that the greater the amount of state investment the less the tariff would ultimately be and the more economically feasible the project becomes to market Alaska's North Slope gas. He offered his personal belief that everyone would be best served, as has been accomplished to date, if the project is looking at being economically viable in the commercial marketplace as any other project to monetize Alaska's gas.

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CO-CHAIR SEATON recalled that during the Alaska Stranded Gas Development Act the state was attempting to be a 20 percent participant in the gasline and at issue was the state regulating itself and how as a minority participant it might not be at a disadvantage. He inquired whether those issues are still to be resolved in HB 9.

REPRESENTATIVE CHENAULT deferred to AGDC to answer the question.

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REPRESENTATIVE GARDNER, in regard to the statement that the HB 9 would give an in-state gas pipeline project some of the same powers the state has given to TransCanada and ExxonMobil, requested an enumeration of those elements and asked which of these elements are unique to these two projects and would not apply to any others.

REPRESENTATIVE CHENAULT responded that there are a number of issues, one being eminent domain in regard to AGIA. He said these will be gone through during the sectional analysis. In further response, Representative Chenault agreed to provide Representative Gardner with a separate listing of these.

The committee took an at-ease from 1:54 p.m. to 1:55 p.m.

[1:55:48 PM](#)

DAN FAUSKE, President, Alaska Gasline Development Corporation (AGDC), CEO, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), in response to Co-Chair Seaton, explained that the Alaska Gasline Development Corporation is a subsidiary of the Alaska Housing Finance Corporation. He said

AGDC is managed by him as well as by the AHFC board of directors. The AGDC is tasked with developing an in-state gas pipeline at the lowest possible cost to Alaskans and AGDC delivered its report to the legislature last July. That report generated enthusiasm and desire to keep the project and process going, so AGDC has done that. He noted that the AGDC office was recently re-located to a larger space and it has continued to add technical people. Other than himself, Mr. Joe Dubler, and a couple of others, he said the majority of AGDC staff are retired and/or contract individuals from the petroleum and gas industry, including two PhD physicists.

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MR. FAUSKE reported that the proposed pipeline would stretch 737 miles from Prudhoe Bay to Port MacKenzie and would be 24-inches [in diameter] and [at a pressure of] 2500 pounds per square inch (PSI). Yet to be determined is whether it will carry "dirty" or enriched or dry gas. In the 2013 open season, industry will tell AGDC what it is interested in doing. He said AGDC has done advanced studies on natural gas liquids (NGLs), liquefied natural gas (LNG), and gas-to-liquids (GTLs) and has published those studies and put them on its web site. At the time of the studies, the most likely end-use product of this project was determined to be LNG because it would provide the greatest netback to the producers. However, AGDC has reserved the right to see what will happen in an open season process when people come forward and state what they are willing to do. He explained that AGDC is restricted to 500 million cubic feet of gas per day under the tenants of the current AGIA. That restriction would only be lifted if it is below the 68th parallel; for example, if a large field of gas was hit in the Nenana Basin or somewhere else below the 68th parallel. Therefore, AGDC has operated under the 500 million cubic feet of gas per day and that has worked well.

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MR. FAUSKE related that last summer AGDC held an expression of interest meeting and the room was filled. He said AGDC is anticipating a total gas consumption of about 240 million cubic feet per day for Fairbanks, the Railbelt, and on down into Kenai, which at a cap of 500 million cubic feet per day leaves 260 million cubic feet per day that needs to be filled. Therefore, [at the meeting] AGDC was very pleasantly surprised to find that gap filled. The agreements are non-binding, but there was a definite commercial interest in the excess gas for

current commercial and normal use. Under the confidentiality agreements he cannot say who it was, but it was encouraging to have that type of interest.

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MR. FAUSKE noted that his first question when he hears discussion on "the big lines" is who pays for it. The incremental cost of a 48-inch line from Prudhoe Bay to Fairbanks is \$2.8 billion, which is a lot of money if there is not a large commercial enterprise at the end of that pipe. The RCA would look at that as overbuilt and would say that the builder cannot monetize or capitalize those costs through the ratepayer, meaning the builder would have to "eat it." However, he continued, that is a decision government could arrive at if it decided that it wanted to go to a bigger development. Under AGIA's guidelines there is the ability to go from 1 billion to 3.5 billion [cubic] feet of gas a day to Valdez for export, and it remains to be seen whether that open season was successful. When AGDC is asked why it did not go to Valdez, the answer is that AGDC is limited to 500 million [cubic] feet [per day] and another entity contracted with the state is already over there; thus, it would have been an interference and likely not a worthwhile mission for AGDC to undertake with its study.

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MR. FAUSKE, regarding [a route along] the Richardson Highway versus the Parks Highway, explained that a lot of work and studies had already been done when AGDC came on board. The language in House Bill 369 directs that Alaskans be supplied gas at the lowest possible cost. The Richardson Highway is 93 miles longer than the Parks Highway and at \$5 million per mile it gets to be serious money in a hurry. In its research AGDC could find no mitigating circumstances that said that initial \$500 million would make it worthwhile to pursue the [Richardson] route. The federal government, when looking at a reasonable alternative approach, agreed there were no mitigating circumstances. Therefore, following the basis of House Bill 369, the proposed route at this time is to come down the existing Trans-Alaska Pipeline System (TAPS) right-of-way, then dogleg to the right at Livengood heading toward Minto, then down across the Minto Flats, and then down onto the Parks Highway right-of-way and the railroad right-of-way to Port MacKenzie.

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MR. FAUSKE said the draft environmental impact statement (EIS) was authorized and recently went on the Federal Register for 45 days of public comment, which is being conducted by the U.S. Army Corps of Engineers. The corps will hold public meetings in the communities along the proposed route. As the applicant, AGDC must be present at all of those meetings. At the end of that process, if successful, there will be an EIS and with that comes the federal right-of-way. He said the critical thing is to get the work done and the EIS in possession because it gives the state a great deal of leverage. The federal government becomes very skeptical when things start to change. In his opinion, he continued, the smartest approach is to get the one that is on file done so as this process moves forward there is some room to move and maneuver.

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MR. FAUSKE shared that the governor and others have talked about alignment and said he believes those discussions will bear some fruit. At that time, supplements to the EIS could be looked at to consider some alternatives. However, while suggestions to move the pipeline to another route may sound good, it is not that easy because it means starting all over if it is a totally different route. While the state could decide to do that, it would put the project behind by a minimum of two and a half years. There are no existing rights-of-way on the Richardson Highway and no permits in place and, he advised, any information otherwise is not true. This is not to say that other projects are no good, it is to say that timeframes must be looked at.

[2:07:16 PM](#)

MR. FAUSKE, regarding Representative P. Wilson's question about finance and bonding, explained why there is a problem. He said it would be similar to a person going to the bank to borrow money to buy a car and the banker assumes that the borrower will be making the payment. But the borrower tells the banker that another person will be deciding what the payment is going to be. The banker will then ask why that other person is not there. What is being looked at is that the bonds have been issued and the investment bankers, engineers, and others have all been dealt with so that the project pieces are in place. But at the end of the day, there is an entity that can deregulate or do something to the payment stream/cash flow stream on the tariffs that have been established, and those tariffs would be established by the legislature. He said AGDC's charts show that the project is currently at front-end-loaded (FEL) 2. At FEL 3

the project would be down to a plus or minus success of 10 percent and that is when the legislature would sanction moving forward. At that time, the legislature will have a very clear idea of what the tariffs are going to be, what the debt service requirements will be, and someone cannot be allowed to get in between because that would create an impediment between the investor and the investor's cash flows or line of sight. Consumers would still be protected on the relationship between them and their utility.

[2:09:23 PM](#)

MR. FAUSKE pointed out that for a \$7.5 billion project, plus or minus 30 percent, the tariffs coming into Anchorage and Fairbanks would be about \$9.63 and \$10.45, respectively. That would be at a 70:30 debt-equity ratio, which means that the state would be an equity owner. He said he is saying own, not operate, because House Bill 369 stipulates the lowest possible cost to the Alaska consumer. The precedent agreements and firm transportation commitments come into play as to what the financing and cash flows are going to be and what the bond rating will be. He advised that AGDC would come in at probably AA+ or AAA depending on the project alignment, whereas most builder/owner/operators would be BBB or BBB+. The difference in what it costs those builders to raise their own capital has a huge impact on what the tariff will be to the consumer. A 100 percent debt-equity ratio is a distinct possibility if the state must go ahead alone because no producers or other interests have stepped forward. However, the basic idea of getting gas to Alaskan consumers is still being looked at; hopefully with a commercial enterprise at the end of it. At a 100 percent debt-equity financing, the aforementioned tariff rates would drop about \$1.20 to each of Anchorage and Fairbanks because of the difference in the capital costs.

[2:11:32 PM](#)

CO-CHAIR SEATON understood Mr. Fauske to be saying that if there were not firm transportation commitments the state could still build a pipeline using its AAA or AA rating as the backup for the debt.

MR. FAUSKE replied that he is not going to say that there will not be firm commitments; he is saying that there might not be a large commercial enterprise or that the state might have to be its own equity owner and buy the gas. That is why bringing ANGDA into the fold represents a significant piece for AGDC in

terms of gas marketing and the ability to purchase gas. The hope is that there will be firm transportation commitments, especially with the utilities.

[2:12:28 PM](#)

JOE DUBLER, Vice President, Alaska Gasline Development Corporation (AGDC), Director of Finance, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), explained that the credit can be based on just about anything. The market will look at what is being offered and that will determine the cost. The state could decide to backstop this entire transaction, but that would be the call of the DOR commissioner, the governor, and the legislature. That would be looking at a little over \$5 billion in debt at a 70:30 debt-equity ratio for the State of Alaska, which would be a very large amount of debt and could impact the state's credit rating. Many people have said definitively that it would, and this could impact political subdivisions, the Alaska Industrial Development and Export Authority (AIDEA), and AHFC. So the best route for a project like this would be to rely on firm transportation commitments because without those the state would have no idea about whether there are people that want to buy the gas. The idea behind the project that AGDC has presented is that it will hold an open season and if the open season is successful and there are firm transportation commitments for capacity in the line, then the project gets sanctioned by the governor and the legislature and the project moves ahead. The project would not move ahead if there are no firm transportation commitments, unless the policymakers decide at that time to build the project anyway.

[2:13:58 PM](#)

CO-CHAIR SEATON recalled that according to last week's hearings, the highest value to Alaska was gas on the North Slope. For example, he related, there are problems with TAPS needing heat in places along the line and lowered volumes so that there needs to be conversion to either methanol and gasoline or GTLs for diluting the heavier oil. He inquired whether it is currently known that the producers are going to commit to sell gas into a pipeline.

MR. DUBLER responded that at the expression of interest meeting held in May 2011, AGDC did receive interest from producers in excess of the line capacity, although that interest is non-binding.

[2:15:23 PM](#)

REPRESENTATIVE P. WILSON understood that the gas pipeline cannot exceed 500 million cubic feet per day because it would violate AGIA for the state to do so. She asked whether HB 9 would allow the state to go around this provision of AGIA because it would be forming its own entity.

MR. FAUSKE answered that he is not a lawyer, but that he thinks the proposed legislation gives a great deal of leeway. He reminded members that AGIA called for five take-off points. Therefore, AGDC's work is not pointless if the big line goes because it then becomes a spur line off the big line. Regarding a bigger line, he said that compression can be added to get to more maximum size and gaslines can be looped, but he does not know that that is where things are at yet. The governor has come out with the message that by third quarter 2012 he wants to see some type of alignment. This message is encouraging because if there is an alignment where gas is going to be delivered it would hopefully have large commercial enterprise generating cash back to the state and adequate gas supplies coming through the Railbelt.

[2:18:36 PM](#)

MR. FAUSKE, continuing, said the sky would be the limit if there is an alignment because once there is a pipeline with the resource there will be all kinds of ideas, entrepreneurs, and inventors. He said he is not advocating for the state to be frivolous, but he is asking what the alternative is. For example, AHFC alone has \$2.5 billion in assets in the affected area, and those would quickly become worthless if there is no energy source.

MR. FAUSKE added that he remains hopeful for Cook Inlet because people in Fairbanks are in the dire situation of paying more for their monthly heating bill than for their mortgage payment. He related that a fear of Fairbanks residents is that if something big is hit in Cook Inlet then Fairbanks will be forgotten. He said the response of AGDC has been that gas can flow north, west, south, and east.

[2:20:11 PM](#)

MR. FAUSKE addressed Representative Kawasaki's question about ANGDA, pointing out that a gas marketing arm will be needed if the project proceeds. Therefore, AGDC recommended that ANGDA be

brought over with its enabling statutes and support, and that ANGDA be utilized for one of the purposes for which it was originally created.

CO-CHAIR SEATON inquired whether the assumption is that the state would take gas in-kind instead of in-value.

MR. FAUSKE replied that it could. However, even if the state was to go it alone and had to buy the gas to put into the line, a marketing entity would still be needed and would therefore need to be created in statute.

[2:21:18 PM](#)

CO-CHAIR SEATON maintained that a marketing entity would not be needed if the state took gas in-value. He therefore presumed that the assumption was to set up the procedure so the state would be ready to either purchase gas to put into the pipeline or to take royalty gas and sell it as gas to some entity.

MR. DUBLER responded that royalty in-kind would be one use of the gas marketing entity that AGDC is trying to utilize through ANGDA. The other use would be in a situation where customers at the downstream end of the pipe do not want to deal directly with the producers on the North Slope. In that case, a gas marketing entity would be needed to provide a bridge between the North Slope producers and the customers on the downstream side. He explained that AGDC cannot own the pipeline and be the gas marketing entity at the same time because those must be separate entities. Therefore, the proposed legislation structures it the same as the private sector - two corporations, two subsidiaries, with common control and common board. He added that when AGDC was researching statute for the language necessary for marketing, it discovered that the statutes for ANGDA provided the ability to do everything that needed to be done.

[2:23:08 PM](#)

CO-CHAIR FEIGE, regarding the 70:30 debt-equity ratio for financing, presumed that the 30 percent equity share would not necessarily come from the state as a whole, but whoever decides to build the pipeline, although the state could certainly have an ownership share in a pipeline of this type. With that in mind, he asked what an appropriate share would be for the state as far as minimum or maximum percentages of equity in the line.

MR. FAUSKE answered that it would come down to the negotiations with some of the business partners. The hurdle rate across the U.S. for these projects is generally around a 12 percent return on equity. For example, if during negotiations a builder/owner/operator says it wants the whole deal, there is some risk here and it must be ensured that the operator does not get the 12 percent and leave all the risks sitting with the state. So there is a trade-off and those are going to be the negotiations during the selection of a builder/operator. The hope is to get equity partners coming in. A year ago a producer [told AGDC] that if any project goes forward it would like to have an equity position at least equal to the amount of gas that it has flowing down that pipe.

[2:25:01 PM](#)

CO-CHAIR FEIGE said one of the major hurdles to this line, as he sees it, is that currently it has a capacity of 500 million cubic feet a day, yet the major market in Anchorage consumes roughly half that with existing production. By the time a line gets built, production available in Cook Inlet may have declined, but there would still be significant production coming out of the inlet. However, with more exploration there could be more production coming out of Cook Inlet. So, there is a certain percentage of the Anchorage Bowl's consumption that will already be taken care of, which leaves somewhere between 250 million and 500 million cubic feet in total demand that is not spoken for. Short of displacing everything that currently exists and all the jobs in Cook Inlet, there is a significant quantity of gas that still has yet to find a customer. He asked whether AGDC or AHFC is in a position to assist or encourage industrial users to come to the state.

MR. FAUSKE replied that this concept has been developed on how to monetize or sell the 500 million cubic feet. It is known that local usage is 240 million cubic feet. Fairbanks is essential to the tariffs that were quoted to the committee earlier and that piece of business must be in there so that the tariff model stays structured. He said AGDC is looking forward to the open season when negotiations are started and interest is shown. The beauty of a front-end-loaded system is that through the stages of FEL 2 and FEL 3 it can be seen whether the project will work. If there is no commercial interest, then the state would be at another decision point; for example, whether to downsize the line, subsidize the amount coming in, or import LNG. He pointed out that AGDC has looked at whether [the gasline] could beat imported LNG pricewise, because if it cannot

then there is no sense in proceeding. Imported LNG is currently at \$14-\$16 per million British Thermal Units (BTUs) and, so far, AGDC's estimates beat that by a fairly good margin.

[2:29:22 PM](#)

CO-CHAIR FEIGE inquired whether HB 9, Version U, gives AGDC enough authority to help facilitate expanding the market before getting too deep into FELs or the various stages of project management.

MR. FAUSKE responded that it is good legislation because it gives AGDC a great deal of authority without offending AGIA and getting into a position of "us versus them", which he does not think is appropriate in terms of moving forward. The proposed bill would give AGDC a great deal of authority to continue doing valuable work for the state to bring a product to the legislature and the governor from which good, meaningful decisions can be made. Progress is being made, he continued; however, confidentiality agreements are needed. Information has been exchanged over the past year, but AGDC has been stopped in its tracks several times when requesting information. He said he supports people on that because they are not going to turn over corporate information if they know that it cannot be protected. He said he thinks this legislation puts AGDC in the right spot to continue moving forward. An outstanding job has been done by the sponsors in researching and creating an entity that will do for the state what needs to be done. Further discussion will show that the provisions are not onerous and have to be done to move forward.

[2:31:44 PM](#)

REPRESENTATIVE KAWASAKI observed from the ANGDA statute that marketing is one of ten duties required of ANGDA. The others are to: come up with plans to use the state's royalty gas for in-state use, create a revenue sharing plan for local governments, plan for delivery of natural gas to communities along the pipeline route and to Southcentral Alaska through a spur line, plan for delivery and pricing of liquefied natural gas to the Yukon River and coastal communities, and plan to maximize Alaska hire including project labor agreements. He added that ANGDA was created by the voters in 2002 and put into law by 2003 with the idea that this authority would be a public corporation unto itself to get gas to the folks that need it. The Alaska Stand Alone Gas Pipeline (ASAP) would miss Fairbanks by about 50 miles, which he said causes concern. The proposed

bill would bring ANGDA under the AHFC board, essentially voiding the current ANGDA board membership. He said he is therefore cautious and questioned why AHFC is the appropriate organization to get gas to customers in the state of Alaska.

MR. FAUSKE answered that he is not in the position to address or explain why ANGDA did not get done the things it was allowed or mandated to do. He said AGDC's recommendation was to save the state some money by bringing in and utilizing an entity that had the statutory guidelines to do the gas marketing. The intent was to not re-invent the wheel. He said ANGDA could continue on its separate mission while AGDC went another way, but that he does not think that is what Representative Kawasaki is advising.

[2:34:41 PM](#)

MR. FAUSKE, regarding missing Fairbanks, said that the proposed pipeline would come 37 miles into Fairbanks from Dunbar. No one is missed, he asserted. He explained that enriched gas would come off the 24-inch line at Dunbar. Because it is enriched gas, a straddle plant would have to be built at a cost of \$250 million to get down to utility-grade gas. Methane would run in a 12-inch pipe to Fairbanks, which would be about three times the current need of Fairbanks. He said he has listened to people and understands their concern, but some of the changes were \$250-\$300 million changes. For Anchorage the gas would come 68 miles in an 18-inch pipe, so the main gasline does not come into Anchorage either. The federal government and others will have some say and restrictions as to where the 24-inch buried pipeline can go, although the rationale for the distance [from Fairbanks] was a cost benefit.

[2:36:59 PM](#)

REPRESENTATIVE KAWASAKI reiterated the portion of his question about why AHFC is the appropriate organization in which to market and monetize natural gas on the North Slope.

MR. FAUSKE allowed that he asked himself that question as well and said that AHFC has a tremendous board. He explained that by statute the AHFC board is composed of the commissioners from Department of Revenue, Department of Commerce, Community & Economic Development, and Department of Health and Social Services, as well as four positions that represent real estate, rural, energy, and finance. Those are broad titles that could easily be equated to this type of project, he maintained, and this has been discussed in reference to creating another entity

or expanding AGDC. He said he is very flattered that AHFC was asked to take this on and he is satisfied with the work that has been produced. Although he is not an engineer, he knows how to manage people and has no doubt of AHFC's capabilities for putting the finance piece of this together. Over the years AHFC has built a reputation of taking on projects and getting them done.

MR. DUBLER added that House Bill 369 was passed by both bodies of the legislature and was signed by the governor, which is how AHFC got involved in this process. It was not something that AHFC was looking for.

[2:39:29 PM](#)

REPRESENTATIVE MUNOZ asked what would happen with the extra gas if more gas is committed during the open season than the pipe can accommodate; for example, could the pipeline be made bigger.

MR. DUBLER replied that under AGIA the pipeline is restricted to half a billion cubic feet a day. If this problem were to occur, AGDC would look to some of the larger shippers, probably the anchor tenant, to throttle back to get under the AGIA limit.

[2:40:19 PM](#)

REPRESENTATIVE MUNOZ inquired what the timeline for completion would be under AGDC's most optimistic scenario.

MR. FAUSKE responded that the first gas transmission would be the fall of 2018, with full transmission in 2019. He reminded members that history shows most projects get themselves into trouble when trying to compress those schedules. While he knows this [timeline] does not comfort the Fairbanks folks, there are some ideas currently underway to mitigate some of the elements, such as possibly trucking gas. Even if Cook Inlet was to come online with a large field, processes such as permitting would still take some time for getting that gas moved north.

[2:42:09 PM](#)

REPRESENTATIVE FOSTER asked how much the demand forecast for the gasline would be affected if the Susitna-Watana hydroelectric project is constructed.

MR. FAUSKE answered that AGDC has a chart showing completion of the dam in about 12-15 years. There is a 60 kilowatt piece that

is based on increased population and time factors in the Anchorage and Railbelt areas, he explained, so the two projects complement each other and both are needed.

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CO-CHAIR SEATON understood that the proposed bill would set the gasline as a contract carrier. However, he pointed out, the state insisted that the AGIA gasline be common carrier open access, which would incentivize other exploration on the North Slope because people would have a mechanism for monetizing any gas that is found. He inquired about getting the benefits of that or whether it is just being said that this pipeline is small enough that it will be tied up with one, two, or three people under contract carrier and everybody else will be excluded unless the contract carrier wants to sell the space.

MR. FAUSKE replied that AGDC has deliberated a great deal on contract versus common carrier and it goes back to financing. He said AGIA was a different animal and an open basis was wanted because of the size of the pipe and to welcome in explorers. At 500 million [cubic] feet a day, he continued, a person would like to think that people will be out exploring and the line will be maxed out quickly. However, it gets back to the financing and wanting long-term, 20-year contracts with shippers that match the cash flows off the gasline's 20-year debt service. These long-term contracts are binding contracts and the trouble with going to common carrier status is that several years down the road someone else could want in on the pipe and then the amount of gas allowed for the guy under contract is reduced because the pipe capacity is only so much. He said AGDC has met with Anadarko Petroleum Corporation and Doyon, Limited, on this issue and there are provisions down the road where compression or looping could be added because at its current status this line could technically go up to a billion [cubic] feet of gas a day, and it seems to have satisfied some people. Going to a common carrier would make it almost impossible for AGDC to get financing for the project, he advised, because there would be no guarantees that these contracts in place would be there to service the debt.

[2:46:01 PM](#)

CO-CHAIR SEATON asked whether it makes more sense for the gasline to be a contract carrier with firm transportation commitments that tie up all the capacity or to have revenue

bonds that are pledged and paid back over time like what was done for the road to Red Dog Mine.

MR. FAUSKE answered that this project would all be based on revenue bonds, and AGDC has advocated for about \$5-\$5.5 billion in revenue bonds to fund this project. The proposed bill points out that these would be debt obligations of AGDC, not of the state and not of AHFC, so that the credit of the state and of AHFC is not harmed. It will be up to AGDC to create a product that will generate the interest in the marketplace to buy the bonds, and getting those investors would be based on these long-term transportation commitments and the dynamics of the project.

MR. FAUSKE added that AGDC is in the process of exploring the agreement that was done under the Alaska Railroad Transfer Act where the railroad had the ability to sell tax-exempt debt in almost unlimited capacity. Since tax-exempt debt in the US is controlled by the Internal Revenue Service, AGDC will do a private letter ruling before it launches because it needs to be in place that that will be allowed. It would have a significant impact on the cost of capital and, if allowed, would be another piece that can be utilized.

[2:47:52 PM](#)

CO-CHAIR SEATON noted that the Legislative Budget and Audit Committee brought up Pedro van Meurs to provide a presentation and analysis of the economics of a half billion cubic foot per day pipeline and a 1.5 billion cubic foot per day pipeline. He requested that AGDC provide the committee with a response to that analysis, preferably by 2/8/12.

CO-CHAIR SEATON moved to discussion of the sectional analysis on HB 9, Version U. He explained that committee members will ask questions as the analysis is reviewed, but that answers to those questions will be provided at the next bill hearing by the sponsors or AGDC.

[2:50:04 PM](#)

TOM WRIGHT, Staff, Representative Mike Chenault, Alaska State Legislature, on behalf of the prime sponsor, Representative Chenault, paraphrased from the sectional analysis on Section 1, written as follows [original punctuation provided]:

Adds a new section to AS 18.56, Alaska Housing Finance Corporation. The new section adds powers to AGDC that

are specific to AGDC's purpose of planning and developing an in-state natural gas pipeline. Those added powers would include the power to: (1) determine the ownership and operating structure and enter into agreements relating to ownership and operation; (2) exercise eminent domain; (3) acquire property and rights necessary or convenient for owning or operating the pipeline; and (4) dispose of the pipeline project or other assets.

This bill section would also (a) add powers to enable AGDC to issue bonds without limitation to further its purposes; (b) add language to protect the State, the various subdivisions of the State, and AHFC from any liability for the actions of AGDC; and (c) establish an "in-state natural gas pipeline fund" where money can be appropriated and used for AGDC's purposes.

MR. WRIGHT noted that the aforementioned is HB 203, passed by the House and now in the Senate Finance Committee.

CO-CHAIR SEATON inquired whether this is the section where it is the debt of AGDC.

MR. WRIGHT replied yes, that is where the liability clause occurs.

[2:51:35 PM](#)

MR. WRIGHT moved to Section 2, explaining that it would exempt contracts by ANGDA from the provisions of the procurement code, AS 36.30. He pointed out that AGDC is already exempt from the procurement code under the provisions of House Bill 369.

REPRESENTATIVE KAWASAKI asked when the planning and development of a project would come before the legislature. He also asked what new broad powers the AGDC would have over eminent domain.

MR. WRIGHT deferred to AGDC on this question, but said that AGDC has eminent domain powers just like those had by other state corporations. He added that he thinks eminent domain was also provided to the Alaska Gasline Inducement Act (AGIA).

CO-CHAIR SEATON reiterated that the questions are just being put on the record for answering at the next hearing.

[2:53:53 PM](#)

MR. WRIGHT returned to the sectional analysis, saying that Section 3 would replace the Joint In-State Gasline Development Team with the Alaska Gasline Development Corporation (AGDC) and Section 30 would repeal the in-state team. Section 4 would replace the executive director of AHFC as the chair of the Joint In-State Gasline Development Team and Section 30 [would repeal the in-state team].

REPRESENTATIVE GARDNER, referring to Version U, Section 4, page 4, lines 24-25, asked whether deleting the language pertaining to avoiding duplicating studies that have already been produced or otherwise obtained by other state entities would create a problem about ownership of the studies.

[2:54:37 PM](#)

MR. WRIGHT paraphrased from the sectional analysis for Section 5, written as follows [original punctuation provided]:

Amends AS 38.34.050(c), Cooperation and access to information. Replaces the reference to AHFC with a reference to AGDC. This section of law currently directs the Department of Natural Resources to grant a right-of-way lease under AS 38.35 for the gas pipeline transportation corridor. The amendment, besides transferring the right from AHFC to AGDC, would specify that the lease is to be given at no cost or rental fee and that the lease is not subject to the lease requirements contained in AS 38.35.120(a)(1), (2), (5), and (7). These paragraphs of current law would require that AGDC operate the pipeline as a common carrier and that it be subject to regulation by the Regulatory Commission of Alaska. With this change, these paragraphs of current law would not apply to AGDC's lease.

CO-CHAIR SEATON inquired whether the provision for no cost or rental fee would require a Department of Natural Resources fiscal note.

[2:55:57 PM](#)

MR. WRIGHT continued paraphrasing from the sectional analysis, moving on to Section 6, written as follows [original punctuation provided]:

Adds new subsections to AS 38.34.050, Cooperation and access to information. The new subsections would: (a) give AGDC the ability to enter into confidentiality agreements and keep information confidential and not subject to disclosure under the Public Records Act (AS 40.25); and (b) direct state agencies to provide to AGDC water, sand, gravel, and other necessary natural resources and to enter into leasehold agreements and issue permits as necessary or appropriate for AGDC's pipeline, with the costs of the foregoing being borne by the applicable state agency.

MR. WRIGHT noted that the sponsor is working with AGDC and the administration on an amendment that would somewhat modify Section 6; the hope is to have it ready for the next hearing.

REPRESENTATIVE GARDNER inquired whether the proposed new subsection (e) to AS 38.34.050 [Version U, page 5, lines 10-21] is the same kind of confidentiality provisions that are seen under AGIA. Regarding the proposed new subsection (f) to AS 38.34.050 [Version U, page 5, lines 22-31], she understood that if AGIA fails the state would own, because of its financial participation, the field study data, route study data, and such. She asked whether that would be the same here.

[2:57:29 PM](#)

CO-CHAIR FEIGE related that an accomplishment by ANGDA was portions of a right-of-way between Glennallen and Palmer. He asked whether that right-of-way would be transferred to AGDC.

MR. FAUSKE responded that [such a right-of-way] does not exist.

[2:58:10 PM](#)

MR. WRIGHT resumed his review of the sectional analysis, stating that Section 7 would repeal and re-enact AS 38.34.099, which is definitions. He said Section 7 would broaden the definitions of the AGDC and the in-state natural gasline to conform to changes in Sections 3, 4, and 5. Section 8 is conforming language for conditional leases and those changes are found in Section 5. Section 9 is also conforming language for noncompetitive leases to note the changes found Section 5.

[2:58:44 PM](#)

REPRESENTATIVE GARDNER returned to the proposed new subsection (g) to AS 38.34.050 [Version U, page 6, lines 1-11], which would provide water, sand, gravel, and other resources at no charge. She said that if gas was sold out of state from this line it would subsidize out of state users, and she would like to know the impact on local governments, if there is any.

[2:59:28 PM](#)

MR. WRIGHT continued the sectional analysis, noting that Section 10 is conforming language for right-of-way leases to note the changes found in Section 5. He said Section 11 would add a new subsection to AS 38.35.140 that a right-of-way lease to AGDC shall be granted without cost or reimbursement. He pointed out that Section 12 is a bill passed by the [House of Representatives] last session, HB 215, and paraphrased from the sectional analysis, written as follows [original punctuation provided]:

Amends AS 38.35.200(a), Judicial review of decisions of commissioner on application. Adds language that is intended to limit the ability of those with objections to natural gas pipeline construction to stop necessary projects. Allows a competing applicant or a person with a direct financial interest affected by the lease right-of-way to raise an objection within 60 days of the application or 60 days after the effective date of this legislation. Allows an applicant standing to seek judicial review anytime in the process.

MR. WRIGHT added that Section 12 would also exempt the Department of Environmental Conservation, Division of Air Quality, from this judicial review.

CO-CHAIR SEATON, regarding Section 11 and the provision that would allow the right-of-way lease to AGDC without cost or reimbursement, asked what would be the fiscal impact of that to the reviewing agencies.

MR. WRIGHT said that would be more in the fiscal note.

REPRESENTATIVE GARDNER asked how the 60 day timeline [Section 12] compares to existing timelines.

[3:01:11 PM](#)

MR. WRIGHT addressed Section 13 of the sectional analysis, stating that this section is also part of HB 215. He paraphrased from the analysis, written as follows [original punctuation provided]:

Adds a new subsection to AS 38.35.200, Judicial review of decisions of commissioner on application. This subsection (c) is modeled after the Trans-Alaska Pipeline Authorization Act provision to foreclose lawsuits against any phase of development and/or construction. This subsection only allows those who have standing to bring about an action alleging that an action will deny rights under the state Constitution or challenging the invalidity of this section. The complaint must be filed in a state Superior court and the court may not grant injunctive relief with the exception of a final judgment. Exempts an appeal of a permitting decision by the Department of Environmental Conservation under AS 46.03 (Environmental Conservation) and AS 46.14 (Air Quality Control) that is delegated to the department by the Environmental Protection Agency.

[3:01:54 PM](#)

MR. WRIGHT continued paraphrasing from the sectional analysis regarding Sections 14-28, written as follows [original punctuation provided]:

Section 14: Amends AS 40.25.120(a), Public records; exceptions, certified copies. Allows AGDC and the provider or recipient of the information to enter into confidentiality agreements that would not be subject to public disclosure. This provision complements the language found in Section 6.

Section 15: Amends AS 41.41.010(a), Establishment of the authority. Deletes certain provisions relating to ANGDA pertaining to the construction of a natural gas pipeline. The overall effect of the amendments in this and later bill sections would be to clarify that ANGDA may operate as a shipper of gas but not as a pipeline owner or developer. This clarifies the respective responsibilities of AGDC and ANGDA and conforms to general requirements of FERC [Federal Energy Regulatory Commission] and other potential pipeline regulatory agencies.

3:02:38 PM

Section 16: Amends AS 41.41.010(d), Establishment of the authority. Conforming language to that found in Section 14, allowing ANGDA to focus more on marketing.

Section 17: Adds a new subsection to AS 41.41.010, Establishment of the authority. Gives the ANGDA the ability to pledge royalty gas owned by the state as long as the royalty gas is not already committed by contract to other purchasers of royalty gas.

Section 18: Repeals and re-enacts AS 41.41.020, Authority governing body. Establishes the board of directors of AHFC as the governing body of ANGDA.

Section 19: Amends AS 41.41.060, Compensation of board members; per diem and travel expenses. This section references statutes granting The Alaska Housing Finance Corporation board reimbursement for compensation, travel and per diem. This change also allows the Alaska Housing Finance Corporation board members to receive compensation, travel and per diem while on official business on behalf of ANGDA.

3:03:42 PM

Section 20: Amends AS 41.41.070(d), Authority of staff. Exempts from the procurement code persons found by ANGDA to be necessary for the purpose of developing information, furnishing advice or conducting studies, investigations, hearings or other proceedings.

Section 21: Amends AS 41.41.090(b), Conflicts of interest. Deletes the reference to a "project" in conformance with the idea that ANGDA will not be a pipeline owner or operator, as discussed above in Section 15.

Section 22: Amends AS 41.41.150(a), Public access to information. Exempts information contained or subject to a confidentiality agreement between ANGDA and the Alaska Gasline Development Corporation. This conforms to changes made in sections 6 and 14.

Section 23: Amends AS 41.41.200. Powers of the authority. Deletes references to a project. this conforms to the change discussed in section 15.

Section 24: Amends AS 41.41.990(2), Definitions. Amends the definition of the ANGDA Board of Directors to allow the Alaska Housing Finance Corporation Board of Directors to act as the board of ANGDA.

[3:04:37 PM](#)

Section 25: Amends AS 42.05.431(c), Power of commission to fix rates. Exempts from review by the Regulatory Commission of Alaska any agreement or amendment to an agreement entered into by AGDC with a public utility. The exemption would continue for as long as any debt is outstanding for the AGDC pipeline.

Section 26: Amends AS 42.05.431(e), Power of commission to fix rates. Makes a conforming drafting change to reflect the change proposed in section 25.

Section 27: Adds a new subsection to AS 42.05.711, Exemptions. Exempts AGDC from oversight by the Regulatory Commission of Alaska until such a time that all debt has been paid on a project.

Section 28: Adds a new section to AS 42.06, Article 7, Pipeline Act. Exempts AGDC and any pipeline developed, owned, or operated, in whole or in part, by AGDC from the Pipeline Act, which, generally speaking, places pipelines and pipeline carriers in Alaska under the regulations of the Regulatory Commission of Alaska.

CO-CHAIR SEATON requested that the exemption in Section 25 be addressed at the next hearing on HB 9.

[3:05:48 PM](#)

MR. WRIGHT resumed the sectional analysis, paraphrasing from Section 29, written as follows [original punctuation provided]:

Adds a new subsection to AS 43.56.020, Exemptions. Taxable property of a natural gas pipeline developed by the Alaska Gasline Development Corporation is exempt from state or local taxes until the first

natural gas flows in the project generating revenue to the owners of the natural gas pipeline project.

CO-CHAIR SEATON inquired about the effects on municipalities and the liabilities that will occur on municipalities during the construction phase.

MR. WRIGHT replied that this is being discussed by the sponsors, although there is not an amendment.

3:06:39 PM

MR. WRIGHT returned to the sectional analysis, paraphrasing from Section 30, written as follows [original punctuation provided]:

Repeals AS 38.34.030, Joint In-State Gasline Development Team; AS 38.34.040, Duties of the development team; AS 38.34.060: Conflicts of interest; AS 41.41.030, Term of office; AS 41.41.040, Removal and vacancies; and AS 41.41.080, Legal counsel. The provisions repealed in the AS 38.34 statutes are the Joint In-State Gasline Development Team, their duties, conflicts of interest provisions. The In-State Team has fulfilled its duties and the function they served is no longer necessary with the advent of AGDC.

The AS 41.41 statutes refer to the board members of ANGDA. These provisions are no longer necessary since the Alaska Housing Finance Corporation board is overseeing activities of ANGDA.

3:07:33 PM

MR. WRIGHT explained that Section 31 would repeal Section 1 of Ballot Measure No. 3, the initiative that enacted ANGDA. He said the sponsors feel that the ballot initiative findings would no longer be necessary and would no longer pertain to what ANGDA's mission would be under the proposed HB 9. He concluded by relating that "Section 32 contains certain instructions to the revisor of statutes and Section 33 is an immediate effective date."

3:08:04 PM

[HB 9 was held over.]

3:08:19 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:08 p.m.