

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

February 27, 2012

1:07 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. 289

"An Act relating to a gas storage facility; relating to the tax credit for a gas storage facility; relating to the powers and duties of the Alaska Oil and Gas Conservation Commission; relating to the regulation of natural gas storage as a utility; relating to the powers and duties of the director of the division of lands and to lease fees for a gas storage facility on state land; and providing for an effective date."

- MOVED CSHB 289(RES) OUT OF COMMITTEE

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."

- MOVED CSHB 9(RES) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 289

SHORT TITLE: NATURAL GAS STORAGE TAX CREDIT/REGULATION  
SPONSOR(s): REPRESENTATIVE(s) THOMPSON

01/17/12 (H) READ THE FIRST TIME - REFERRALS  
01/17/12 (H) RES, FIN  
02/24/12 (H) RES AT 1:00 PM BARNES 124  
02/24/12 (H) Heard & Held  
02/24/12 (H) MINUTE(RES)  
02/27/12 (H) RES AT 1:00 PM BARNES 124

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  
02/06/12 (H) Heard & Held  
02/06/12 (H) MINUTE(RES)  
02/08/12 (H) RES AT 1:00 PM BARNES 124  
02/08/12 (H) Heard & Held  
02/08/12 (H) MINUTE(RES)  
02/10/12 (H) RES AT 1:00 PM BARNES 124  
02/10/12 (H) Heard & Held  
02/10/12 (H) MINUTE(RES)  
02/13/12 (H) RES AT 1:00 PM BARNES 124  
02/13/12 (H) <Bill Hearing Canceled>  
02/24/12 (H) RES AT 1:00 PM BARNES 124  
02/24/12 (H) Heard & Held  
02/24/12 (H) MINUTE(RES)  
02/27/12 (H) RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

JANE PIERSON, Staff  
Representative Steve Thompson  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Reviewed the provisions of HB 289 on behalf of Representative Thompson, prime sponsor.

GENE THERRIAULT, Vice President, Natural Resource Development  
Golden Valley Electric Association (GVEA)  
Fairbanks, Alaska

**POSITION STATEMENT:** Answered questions related to HB 289.

RENA DELBRIDGE, Staff  
Representative Mike Hawker  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions related to HB 9 on behalf of Representative Hawker, sponsor.

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:** Answered questions related to HB 9.

TINA GROVIER, Attorney, Natural Resources and Energy Law  
Birch Horton Bittner & Cherot  
Counsel to Alaska Gasline Development Corporation (AGDC)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions regarding HB 9.

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

**POSITION STATEMENT:** Answered questions related to HB 9 on behalf of Representative Chenault, prime sponsor.

ALAN LEMASTER, Businessman  
Gakona, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 9.

PARK KRINER, President  
American Village of Alaska; Caribou Hotel, Restaurant, Gift Shop  
Glennallen, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 9.

MERRICK PEIRCE  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 9.

REPRESENTATIVE MIKE CHENAULT  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Testified as the prime sponsor of HB 9.

REPRESENTATIVE MIKE HAWKER  
Alaska State Legislature

Juneau, Alaska

**POSITION STATEMENT:** Testified as a sponsor of HB 9.

**ACTION NARRATIVE**

[1:07:06 PM](#)

**CO-CHAIR PAUL SEATON** called the House Resources Standing Committee meeting to order at 1:07 p.m. Representatives Herron, Dick, Gardner, Foster, Feige, and Seaton were present at the call to order. Representatives Munoz, Kawasaki, and P. Wilson arrived as the meeting was in progress.

**HB 289-NATURAL GAS STORAGE TAX CREDIT/REGULATION**

[1:07:29 PM](#)

CO-CHAIR SEATON announced that the first order of business would be HOUSE BILL NO. 289, "An Act relating to a gas storage facility; relating to the tax credit for a gas storage facility; relating to the powers and duties of the Alaska Oil and Gas Conservation Commission; relating to the regulation of natural gas storage as a utility; relating to the powers and duties of the director of the division of lands and to lease fees for a gas storage facility on state land; and providing for an effective date." [Before the committee was the proposed committee substitute (CS), Version I, labeled 27-LS1216\I, Bullock, 2/20/12, adopted as the working document on 2/24/12.]

[1:07:54 PM](#)

JANE PIERSON, Staff, Representative Steve Thompson, Alaska State Legislature, on behalf of Representative Thompson, prime sponsor, reviewed the provisions of Version I of HB 289. She explained that Section 1 would create a new section under AS 38.05 to provide that above-ground liquefied natural gas storage tank facilities sited on state lands can request an exemption from rental payments. Section 2 would amend the definition of a natural gas storage facility under AS 42.05.990(3). Section 3 would add a new section to AS 43.20 to create a credit for: a liquefied natural gas storage facility of 1 million gallons or more; expansion of an existing facility of 1 million gallons or more; and capping of the credit at \$15 million or 50 percent of the development cost, whichever is less. This would be in addition to any other credits in this chapter. Section 3 would also provide that the storage facility must be regulated by the

Regulatory Commission of Alaska (RCA) and would establish how credit payment shall be dispersed. It would set forth how a person who has received a credit shall repay the credit if the facility ceases commercial operations within nine calendar years immediately following the calendar year in which the facility commenced commercial operations. Additionally, the terms liquefied natural gas storage facility, ceases commercial operation, and commences commercial operation are defined in Section 3.

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CO-CHAIR SEATON closed public testimony after ascertaining that no one from the public wished to speak.

CO-CHAIR SEATON moved to adopt Conceptual Amendment 1 which on page 3, lines 29 and 31, would delete "1,000,000" and insert "50,000".

CO-CHAIR FEIGE objected for discussion purposes.

[1:10:24 PM](#)

CO-CHAIR SEATON drew attention to two photographs in the committee packet of small-scale liquefied natural gas (LNG) receiving terminals in Norway, where small coastal vessels deliver LNG to communities. He explained that one photo is of a site that has three small storage tanks, each holding 200 cubic meters, and the other photo is of an LNG tank that holds 2,000 cubic meters. For further reference, he noted that an e-mail [from Hans R. Tveitaskog] accompanies the two pictures.

CO-CHAIR SEATON said he is offering Conceptual Amendment 1 because the legislature is trying to make competitive energy and lower-cost natural gas available to more communities, but while a one million gallon tank might work for the state's second largest community it does not work for the other communities. He explained that 200 cubic meters translates to just over 50,000 gallons, which would be more appropriate for serving small communities. Whether LNG is delivered by vessel to coastal towns or by truck, there needs to be enough capacity for the community, and the aforementioned amounts have been proven adequate for the situation in Norway.

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CO-CHAIR FEIGE said his objection is related to why not more or why not less than 50,000 gallons. He recalled that Golden Valley Electric Association testified that 1 million gallons would be two weeks supply for that utility. The purpose of the tank is to provide a quantity that buffers any fluctuations in either demand or delivery of the supply to the community. While he allowed that 50,000 gallons may be adequate, he said the smaller the number that can legitimately be made, the more communities would be able to qualify for the tax credit and the more distribution there could be throughout interior and coastal Alaska. He recollected that Mr. Therriault of Golden Valley Electric Association said 12.1 gallons of LNG equaled 1 thousand cubic feet (MCF) of gas. He asked whether there is something more regarding why 50,000 gallons was chosen, other than it being the way Norway does it.

[1:15:11 PM](#)

CO-CHAIR SEATON responded that if 50,000 gallons was not enough for a particular community that community could plan for an appropriate size. The bill would allow for both initial as well as expansion, so the communities themselves would have to do a cost-benefit analysis to determine the appropriate size. A consideration is that it must be a regulated utility that applies for this because it is supposed to be for distribution systems for communities, which ensures that a project is not done for an individual building or entity. For a comparison, he related that the Talkeetna Lodge has two 5,000 gallon tanks that are serviced by truck at regular intervals by Fairbanks Natural Gas. He said the 50,000 was the best number he could come up with, given there are small communities in Norway that have the flexibility for tanks of 200 cubic meters to 2,000 cubic meters.

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CO-CHAIR FEIGE asked what size truck is used by Fairbanks Natural Gas.

MS. PIERSON deferred to Mr. Therriault.

REPRESENTATIVE P. WILSON stated she does not know if the amount is right, but it needs to be dealt with to ensure that smaller communities can be taken care of.

MS. PIERSON replied that if the bill moves on, she will work with committee members to determine what that "magic number" is for communities.

CO-CHAIR SEATON reiterated Co-Chair Feige's question about the capacity of LNG tankers currently being used by Fairbanks Natural Gas.

GENE THERRIAULT, Vice President, Natural Resource Development, Golden Valley Electric Association (GVEA), said he believes the current tankers used by Fairbanks Natural Gas are either 10,000 or 11,000 gallons. He added that the tanker size GVEA anticipates using for running LNG from the North Slope is 13,500 gallons.

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REPRESENTATIVE HERRON requested Mr. Therriault to comment on Conceptual Amendment 1.

MR. THERRIAULT replied GVEA would not have a problem with [50,000 gallons, given it is a policy call on how to balance this. He explained that GVEA has reached out to potential users around the highway system that it would like to serve as customers under the premise that if the overall volume is raised then everybody's per unit cost comes down. Therefore, if that volume is the right size for those users on the highway then it would be fine with GVEA.

[1:21:05 PM](#)

CO-CHAIR FEIGE suggested a tank size of 25,000 gallons, given that the planned truck size is roughly 13,000 gallons. This way, when half the volume in the storage tank is used there would be enough room to receive the next truck.

CO-CHAIR SEATON responded that he has no basis for community utilities using less than 200 cubic meters.

REPRESENTATIVE P. WILSON stated that [25,000 gallons] makes sense to her.

REPRESENTATIVE GARDNER pointed out that if a smaller size is in statute a community needing a larger volume would still be covered, but not so with the reverse. She added that, in practice, the key is the standard tank size so that the statute is not for a volume that would require customized tanks, although she did not personally know what a standard size would be.

[1:22:54 PM](#)

REPRESENTATIVE HERRON related that the standard size for LNG or propane tanks is rail cars of about 30,000 [gallons] and further noted that a larger tank size currently available for purchase is 18,000 [gallons]. He therefore maintained that 30,000 and 18,000 [gallons] are common sizes.

CO-CHAIR SEATON said these would not be propane tanks, so they are not currently manufactured. He did not think that the committee's consideration should be for an off-the-shelf size. In response to Co-Chair Feige, he pointed out that propane tanks are low pressure tanks.

REPRESENTATIVE HERRON asserted that those are common sizes because an odd size or very large size cannot be transported. He agreed that the storage tanks would be custom made, but said they would be built according to limitations of the road system.

[1:24:48 PM](#)

CO-CHAIR SEATON stated he would be amenable to 25,000 gallons.

CO-CHAIR FEIGE said he would like more information because some of these communities are relatively constrained and these tanks all have a blast radius. The smaller the tank, the smaller the blast radius, therefore the easier it would be to site these tanks in the limited land available to villages. For example, the coastlines limit where the tanks could be put and some villages might not have enough land available to them should the tank need to be sited well outside of town.

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CO-CHAIR FEIGE moved to adopt Amendment 1 to Conceptual Amendment 1 which would delete "50,000" and insert "25,000".

CO-CHAIR SEATON accepted the conceptual amendment as a friendly amendment. There being no objection, Amendment 1 to Conceptual Amendment 1 was adopted. Therefore, Conceptual Amendment 1, as amended, would on page 3, lines 29 and 31, delete "1,000,000" and insert "25,000".

There being no objection, Conceptual Amendment 1, as amended, was adopted.

[1:27:39 PM](#)

REPRESENTATIVE P. WILSON moved to report the proposed committee substitute (CS) for HB 289, labeled 27-LS1216\I, Bullock, 2/21/12, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 289(RES) was reported from the House Resources Standing Committee.

The committee took an at-ease from 1:28 p.m. to 1:31 p.m.

**HB 9-IN-STATE GASLINE DEVELOPMENT CORP**

1:31:43 PM

CO-CHAIR SEATON announced that the next 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." [Before the committee was the proposed committee substitute (CS), Version U, labeled 27-LS0075\U, Bullock, 1/19/12, adopted as the working document on 2/6/12.]

1:32:00 PM

REPRESENTATIVE P. WILSON moved to adopt the proposed committee substitute (CS) for HB 9, version 27-LS0075\S, Nauman/Bullock, 2/25/12, as the working document. [There being no objection, Version S was before the committee.]

CO-CHAIR SEATON explained that Version S is Version U with all of the amendments adopted at previous committee meetings incorporated into the bill.

RENA DELBRIDGE, Staff, Representative Mike Hawker, Alaska State Legislature, on behalf of Representative Hawker, sponsor, drew attention to the committee packet which included a summary of changes made by the House Resources Standing Committee that are reflected in Version S.

CO-CHAIR SEATON, in response to Representative P. Wilson, reiterated that the only changes incorporated into Version S are the amendments that were adopted by the committee so that members could read them in context.

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REPRESENTATIVE GARDNER requested an explanation regarding why the sponsor believes a pipeline controlled by the Alaska Gasline Development Corporation (AGDC) should be exempt from regulation as a public utility by the Regulatory Commission of Alaska (RCA). She understood that the purpose of HB 9 is to bring gas to Alaska residents; that being the case, she asked why the pipeline should be exempt from RCA regulation.

MS. DELBRIDGE replied the intent is that if AGDC has controlling interest in a pipeline and has some decision-making authorities, it can carry out its mission to provide in-state gas at the lowest possible rates for in-state use. The exemption would be as a public utility under AS 42.05. This proposed exemption would alleviate the risk on this project of regulatory uncertainty in the sense that this is a state-supported project that already inherently conveys that it is in the public's interest and is necessary. That is a big component of being regulated as a public utility under AS 42.05. Because the state is approving this as it goes forward through empowering AGDC to move along, it would be redundant and potentially highly risky financially and time-wise for the project to also be subject to regulation under that component.

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REPRESENTATIVE GARDNER noted it is anticipated that at some point in the future the pipeline will not necessarily be controlled by AGDC because it could be sold or the control transferred to another entity. If that were to happen, she asked whether the entity would then be regulated by the RCA as a utility.

MS. DELBRIDGE responded she would presently say it is uncertain at what point a project may be transferred out of AGDC's control, but that there are several options. A project not controlled by AGDC would not be exempt from regulation under AS 42.05; therefore that protection is in place. When debt is no longer outstanding on the project, it can go to private ownership. Hypothetically, if after 10-15 years from now the project is transferred to private ownership with no longer a degree of AGDC control, there would be in place the contracts already developed with AGDC as a controlling interest looking out for the interests of in-state gas. Those contracts with all those individual shippers would likely be for a long period to

support the financing required for the gas commitments over the life of a pipeline.

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REPRESENTATIVE GARDNER inquired whether anyone would review those contracts during that process in which the AGDC sells off or makes a contract with a private entity. She further inquired whether, at any point along the way, the contract details would become public information or would they be held privately between AGDC and the potential buyer.

MS. DELBRIDGE answered that in this situation those contracts would be made for the length of duration of a shipping commitment, which should be 10-20 years, and there is no intent to make those publicly available. The intent is to ensure that commercial processes can work in developing those contracts and therefore keep those as confidential information. Version S would provide another degree of evaluation - the contracts that are specifically with public utilities for in-state gas would be overseen by the RCA through the ability of public utilities to seek pre-approval of the RCA to allow the utilities to recover the costs of involvement in this project or any large project through the rates that they later charge their customers. Version S would also provide that the rate of return on equity to the pipeline owners be looked at by the RCA.

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REPRESENTATIVE GARDNER clarified she is not inquiring about shipping contracts, but rather the transfer from AGDC such that AGDC no longer controls the line at some point in the future. She asked whether that agreement would be made public if the line is transferred to an entity that is not a public utility, and whether there would be any kind of oversight of the tariff for consumers.

MS. DELBRIDGE replied that the tariffs would have already been set through the contracts negotiated at the beginning of the life of that pipeline.

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CO-CHAIR SEATON explained that the utilities forming a contract have the ability to submit that contract to the RCA to make sure that the rates are just and reasonable. The presumption is that the utility purchasing gas is going to want to submit to the RCA

to be assured it has looked out for its consumers and is not being overcharged. Version S states "may" because there could be circumstances where it would not be efficient to submit to the RCA and the utility is willing to take the risk. He said his perspective is that the chance of a public utility contracting for a supply and then not protecting itself through oversight by the RCA would be pretty small. He related that the committee also looked at the problem of a contract carrier line controlled by AGDC to ensure the rate of return by different owners; he added that this will be brought up by an amendment. The concern was that if the RCA or Federal Energy Regulatory Commission (FERC) was not verifying that the rate of return was just and reasonable, then who would? Therefore, a conceptual amendment was passed [on 2/24/12] that said those would be reviewed.

REPRESENTATIVE GARDNER thanked Co-Chair Seaton and said that was the heart of her question.

CO-CHAIR SEATON added that the concern was to balance the two missions of AGDC for getting gas to consumers in Alaska as cheaply as possible as well as getting a gasline, so that was why there was discussion about the rate of return.

[1:42:13 PM](#)

CO-CHAIR SEATON moved to adopt Amendment 1 to Version S, labeled 27-LS0075\S.2, Nauman/Bullock, 2/27/12, which read [original punctuation provided]:

Page 18, line 23:

Delete "the rate of return for"

Insert "rates of return accepted by the Federal Energy Regulatory Commission for rate making purposes for interstate"

The committee took a brief at-ease.

[1:44:05 PM](#)

CO-CHAIR SEATON tabled Amendment 1 and moved to adopt Amendment 2 to Version S, labeled 27-LS0075\S.1, Bullock, 2/27/12, which read [original punctuation provided]:

Page 1, line 10:

Delete "**projects**"

Insert "**contracts**"

Page 5, lines 14 - 25:  
Delete all material.

Reletter the following subsection accordingly.

Page 18, lines 18 - 25:  
Delete all material.

Renumber the following bill sections accordingly.

Page 18, line 30:  
Delete "may"  
Insert "shall"

Page 19, line 3:  
Delete "may"  
Insert "shall"

Page 19, line 6:  
Delete "may"  
Insert "shall"

Page 19, line 8, following "shall":  
Insert "review and may"

Page 19, following line 15:  
Insert new subsections to read:  
"(e) Before the start of construction of a natural gas pipeline by the Alaska Gasline Development Corporation or an entity controlled by the Alaska Gasline Development Corporation, the Alaska Gasline Development Corporation shall submit to the commission under seal any firm transportation precedent agreement it has negotiated with an entity that is not a public utility. Notwithstanding AS 40.25.110 and AS 42.05.671(a), the commission shall keep an agreement submitted under this subsection confidential.

(f) The commission shall review each agreement submitted under (e) of this section and compare the firm transportation rates in the agreement to the weighted-average of the firm transportation rates contained in the firm transportation contracts submitted under (a) of this section that were approved under (d) of this section. The transportation rates in the contracts submitted under (a) of this section

shall be weighted by volume for purposes of the comparison. The commission shall approve by order an agreement submitted under (e) of this section if the firm transportation rates are equal to or less than the weighted-average firm transportation rates in contracts submitted under (a) of this section and approved under (d) of this section. The commission shall disapprove by order an agreement submitted under (e) of this section if the firm transportation rates are greater than the weighted-average firm transportation rate in contracts submitted under (a) of this section and approved under (d) of this section. If the commission has not disapproved an agreement submitted under (e) of this section within 30 days after the submission of the agreement, the agreement shall be considered approved and shall take effect immediately. A firm transportation precedent agreement that is approved under this subsection is not subject to further review by the commission."

Page 19, line 18:

Delete "AS 42.05.141(e)"

Insert "AS 42.05.433"

The committee took an at-ease from 1:44 p.m. to 1:45 p.m.

[1:45:27 PM](#)

REPRESENTATIVE P. WILSON objected for purposes of discussion.

CO-CHAIR SEATON, pointing out that Amendment 2 is from the sponsor, requested Ms. Delbridge to explain what the amendment would do and provide details of the amendment.

MS. DELBRIDGE explained that Amendment 2 reflects to [Conceptual Amendment 2 to Amendment 15] that was made by the committee on 2/24/12. The Department of Law (DOL) expressed a concern related to that amendment's provision for an evaluation of the rate of return. Amendment 2 [to Version S] would change the concept of regulation of this pipeline so that public utilities entering contracts "shall" submit these contracts to the RCA, rather than "may". This would provide the RCA with the absolute paperwork in hand that shows the tariffs the utilities are paying for gas on that line. Amendment 2 would further provide that contracts with non-utility shippers be submitted to RCA under confidentiality as commercial agreements, and that the RCA will compare the tariffs charged to the non-utility customers

with the weighted average of the tariffs charged to the utility customers; the tariffs charged to non-utility customers cannot be higher than those charged to utility customers. The purpose in doing this is to give some assurance that a shipper - for example, a large commercial shipper that is also part owner of this pipeline - is not increasing tariffs to where that shipper can reduce the netback value of its gas on the North Slope, which is where the gas is valued for state tax purposes. The sponsors understood this to be a concern of the committee and wanted to address it. The RCA would have a 30-day window to conduct the comparison; this short time period is because it is a simple mathematical comparison of the average tariffs for utilities and non-utilities.

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REPRESENTATIVE P. WILSON surmised that there would not be utility customers right away to which a comparison could be made. She therefore asked whether the comparison would be made after the pipeline is built and the contracts are in place.

MS. DELBRIDGE replied that a public utility in Alaska has several options, should a project go to open season: the utility could commit to capacity, the utility could buy space on the pipeline and ship the gas itself that is purchased from a producer before that gas goes into the line, or the utility could arrange for a middleman to ship the gas and the utility would buy the gas at the end. That middleman might consolidate several small contracts and arrange for shipping and buy space in the line. Whichever the option, it would need to be determined in large part at the time of making precedent agreements, because either the public utility is going to have to sign an agreement for space in the line or another shipper will have to sign on the utility's behalf. If another shipper signs, it would want those utility agreements in place to buy the gas that the shipper is going to ship to support that commitment to buy space in the line.

JOE DUBLER, Vice President, Alaska Gasline Development Corporation (AGDC), Director of Finance, Alaska Housing Finance Corporation (AHFC), Department of Revenue (DOR), offered his belief that Representative Wilson is talking about utility customer contracts between the utility and the users of the gas. However, the contracts being discussed here are between the pipeline and the utilities, which are done very early in the process before construction even begins. Therefore, it would

definitely be known very early in the process who the shippers will be and how much they will be paying.

[1:51:03 PM](#)

REPRESENTATIVE P. WILSON surmised that the non-utility and utility customers could be the same customers.

MS. DELBRIDGE responded not necessarily, the public utilities can ship gas in a pipeline as can other users such as a large industrial user. A public utility does not have to buy pipeline space, it could arrange for a middleman to buy the space and ship the gas to the utility. Either way, there has to be some sort of a contract in place early that says there is an end-user for the gas that is going to be shipped. The pre-approval that utilities have to take to the RCA is simply the public utility saying, "RCA we want to participate in this project, we're investing a lot of money in this, we need to know that you are going to approve our rates later when we charge our customers, our ratepayers, for this gas."

[1:52:28 PM](#)

REPRESENTATIVE P. WILSON said she was meaning that the owners or partial owners of the pipeline could be the producers and they could be shipping gas down the line.

MS. DELBRIDGE explained that a producing company could create another component of its business that buys part of this pipeline and ships gas on behalf of that producer entity. As is similar with other pipelines, there would be real firewalls in place so that there is a separation between the entity that produces and the entity that ships.

MR. DUBLER added that Amendment 2 would create a system to prevent a producer that is also an owner in the line from raising the tariff so high that there is no netback on the North Slope and therefore no tax owed to the state on the gas. He noted that Co-Chair Seaton worked closely with [the sponsors] to come up with this amendment to prevent that from happening.

CO-CHAIR SEATON understood that the rate would not be higher for the commercial customer than for the weighted average of the utilities, weighted being the volume. This would prevent a producer that has high costs from writing off the costs against its gas, thereby lowering the production tax value at the

wellhead, which would lower the royalty and the production tax value on which state tax is collected.

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CO-CHAIR SEATON requested Ms. Delbridge to address whether there could be a circumstance in which a commercial customer would have a much lower tariff than would the utilities.

MS. DELBRIDGE answered there is a good chance that a commercial customer tariff will be lower if that customer is arranging to ship a quantity of gas that is substantially higher than that of a utility. Alaska's utilities do not use an excessively large volume of gas compared to what a gasline would be able to ship. A single industrial user could theoretically use as much gas as would a whole region of utilities. Generally in commercial negotiations, committing to ship a larger amount of gas will get a better rate for the gas. When looking at just and reasonable rates, part of what the RCA looks for is that large volume shippers generally are due a lower tariff.

[1:56:49 PM](#)

CO-CHAIR SEATON presumed that just and reasonable would not be such a low tariff that it would mean the tariff to utilities would have to be substantially higher than the weighted average.

MS. DELBRIDGE replied that within those commercial negotiations, whoever owns the pipeline will make sure that those tariffs are competitive for any shipper so that the owner can in fact have a pipeline project that is commercial.

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REPRESENTATIVE GARDNER described a hypothetical situation in which a relatively small pipeline is built and the utilities have purchased 40 percent of the capacity and 60 percent is going elsewhere. If somewhere down the road this pipeline is doubled in size for one shipper, she surmised that that shipper could get a tariff rate that is a great deal less than that which the utilities are locked into already.

MS. DELBRIDGE confirmed that potentially this is a possibility. She explained that expansion at some future time would be up to the pipeline owners because under HB 9 the pipeline would be exempted from common carrier and would have no requirement for mandatory expansion. The rate structure on how an expansion

would be handled would tend to benefit every shipper because the more volume being shipped the lower the rates generally go. How future expansions might be reflected would be written into those initial commercial contracts with the shippers.

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CO-CHAIR SEATON understood that if a shipper came in for expansion and had a very low tariff rate, that would mean the production tax value and the royalty value would be higher, so higher royalty and taxes would be paid than if there was an offset of the weighted tariff paid by the utilities.

MS. DELBRIDGE concurred and noted that the state has a lot of competing interest when it comes to developing a resource for commercialization versus supporting the concept of in-state use of natural gas by customers in Alaska or industry.

[1:59:40 PM](#)

REPRESENTATIVE P. WILSON understood that royalties are paid to the state. She asked whether the state would be paying for all or part of the pipeline with state money, or would bonds be issued to pay for the pipeline so that state money is not used.

MS. DELBRIDGE confirmed the state collects a royalty on gas produced and said that that gas would likely be fed into this gasline. The state could be an owner of this line, but does not necessarily have to; that is part of the ownership and operating agreements yet to be determined as AGDC is allowed to progress the commercial process.

[2:00:43 PM](#)

REPRESENTATIVE P. WILSON said she is concerned about the royalties for the state and asked how this would work out if at the same time the state is going to be paying for some of this.

MS. DELBRIDGE replied that HB 9 would provide AGDC the authority to issue revenue bonds, which would be an instance where the state would not directly write a check to the company or entity building the pipeline. However, AGDC may ask the state for the equity portion of that debt that it is issuing, but then the state would be expecting that return on its equity investment. She deferred to Mr. Dubler for further explanation.

MR. DUBLER explained that pipelines like this can be financed two different ways. One way is through equity contributions of the owners, which is where the owners actually put their own money into the pipeline. The second way is that the owners go to the debt market and borrow money to finish the construction. The two different financing sources are important because, in this case, debt is a lot cheaper than equity. The equity portion generally returns about 12 percent to the equity owners, but debt is about half of that. Therefore, the state would want to have as much debt in the project as possible, which is why AGDC has proposed a structure of 70 percent debt to 30 percent equity. If the state chose to put money into this as an equity partner, it would get a return on its investment. If the state wanted to get the same return as other partners or other typical pipeline owners, it would get a 12 percent return. He pointed out that it will be a policy call at that time as to whether the state wants to receive 12 percent equity return or wants to keep the tariff low. The remainder would be debt and that would be roughly half of the 12 percent.

[2:02:51 PM](#)

REPRESENTATIVE P. WILSON asked how much is possibly being talked about for the equity portion.

MR. DUBLER answered that at a 70:30 debt-equity ratio for a project of \$8 billion, the 30 percent portion would be about \$2.4 billion. The state or some equity partner would put up the \$2.4 billion. The equity partner would likely be a combination of the producer or the pipeline company that owns and manages the gasline. The remaining \$5.6 billion would come from the debt market.

[2:03:37 PM](#)

REPRESENTATIVE P. WILSON inquired who makes the decision on how that will play out.

MR. DUBLER replied that the decision would be made by AGDC. The AGDC staff would recommend to the board what should be done, based upon the economic conditions at the time. For example, in five years when AGDC begins construction and looks to the markets for capital, circumstances could be that a 70:30 debt-equity ratio is not beneficial. The companies that would typically partner in an arrangement like this could be short of capital and might require a much higher return, in which case it could be a ratio of 80:20 or 90:10. However, he thought it

unlikely that the beneficial ratio would be different than 70:30.

2:04:45 PM

REPRESENTATIVE P. WILSON asked whether the money would come from the board's own organization or would AGDC ask the legislature for the money and the legislature would decide.

MR. DUBLER responded that, to the extent that AGDC was to look to the state to participate as an equity owner in any percentage, it would be subject to appropriation and would go through the legislative process and to the governor for approval. Any state contributions, any state money that is spent on this project, is subject to appropriation. Every contract AGDC signs is subject to appropriation. Everything comes back to the legislature.

2:05:37 PM

CO-CHAIR SEATON, in regard to the debt-to-equity relationship, noted that AGDC is required to get a pipeline at the best possible deal to the state. Given the current bill structure, he asked whether AGDC understands that it must arrange the financing in a way that will provide the cheapest gas to Alaskans.

MR. DUBLER confirmed this is correct and said that is why AGDC pointed out in its report that 100 percent debt would be cheapest and recommended that. Since then, however, he has met with several pipeline companies and none wanted to participate in a pipeline in which they did not have some equity. The companies make money utilizing their capital in projects like this and therefore they like the 12 percent return. While the 100 percent would yield the absolute best tariff for Alaskans, AGDC does not currently think that that is a commercially viable option for this pipeline.

2:07:05 PM

MR. DUBLER, in response to Co-Chair Seaton, confirmed that HB 9 requires a minimum of 70 percent debt.

CO-CHAIR SEATON pointed out that in other contracts, such as the Alaska Gasline Inducement Act (AGIA), the state has used a 70:30 debt-equity ratio to maintain low tariffs.

2:07:59 PM

REPRESENTATIVE MUNOZ understood that HB 9 limits the shipment of gas to 500 million cubic feet [per day] because of AGIA.

MS. DELBRIDGE nodded yes.

REPRESENTATIVE MUNOZ, continuing, noted that Alaskans may want to reconsider the size and scope of this project should the state not get a larger pipeline through AGIA, the provisions of which end in 2016. She inquired whether there is enough flexibility in HB 9 to reconsider size and market demands if the AGIA project fails.

MS. DELBRIDGE prefaced that the sponsors have been very, very careful through HB 9 to absolutely acknowledge that AGIA is the law of the land and that there is nothing that the sponsors intend to do to violate the 500 million cubic feet per day limit that is inherent in that.

MR. DUBLER explained that AGDC did a preliminary expression of interest in 2011 and the interest expressed was at about 500 million cubic feet a day, so that looks like that is what the market for this pipeline is. It is important to keep in mind, he stressed, that Alaskans cannot decide how big this pipeline is going to be, the market will decide how big this pipeline is going to be - unless the state contributes the difference. While the main purpose of this pipeline is to get gas to Alaskans, there must still be a market at the other side to take all the gas that is shipped. He said AGDC has not seen interest expressed to exceed the 500 million cubic feet per day; to the extent AGDC did, and the restrictions were not in place, it would behoove everybody for AGDC to upsize the pipe.

2:10:22 PM

CO-CHAIR SEATON interjected that two factors are being dealt with, one being pipe size and one being compression. While the pipeline design is for 500 million cubic feet per day, HB 9 does not have any restrictions for coming back with additional compression to carry more or to go to looping, if in the future the AGIA standards are no longer there.

MR. DUBLER added that if there was a desire for shippers beyond the half billion cubic feet per day, those interests would come out via the governor's realignment of the AGIA process to tidewater, and that line would produce a much larger throughput

than would this project. As it is currently set up, the AGIA process with the realignment would take advantage of that market if it is there.

CO-CHAIR SEATON further pointed out that if a larger pipeline went to Valdez, AGDC would then probably function on the spur line coming to Southcentral or that Cook Inlet gas was going into that pipeline. If the AGIA pipeline goes ahead, HB 9 would still have functionality in the future because there are other places that gas needs to be delivered besides Valdez.

MR. DUBLER nodded in agreement.

[2:13:04 PM](#)

CO-CHAIR FEIGE said the discussion here is the difference between the intention of what the line will be operated at and what the line's design limit is. He asked whether the AGIA people would file suit if a plan was put into place that would operate the pipeline at half a billion cubic feet per day, but the line was designed to transmit more gas per day.

MR. DUBLER replied that a suit could be brought for anything. As AGDC is designing it, this line could have compression added to move a higher volume. As currently designed, the line would have two compressor stations and would be 24-inches in diameter at 2,500 pounds per square inch. The limit for this design is half a billion cubic feet per day, which AGDC believes does not conflict with the restrictions set forth in the AGIA statutes.

CO-CHAIR FEIGE inquired whether TransCanada has given AGDC its blessing on this design.

MR. DUBLER responded that AGDC has had discussions with TransCanada and to his knowledge that subject has not come up in those discussions.

[2:15:06 PM](#)

MS. DELBRIDGE returned to her explanation of Amendment 2, directing attention to page 2, lines 4-5, of the amendment, which reflect to page 19 of HB 9, Version S. She noted that on 2/24/12 there was committee discussion as to whether the RCA "shall" or "may" require hearings and investigations if a public utility brings a pre-application request to the RCA. In speaking with the RCA attorney in the Department of Law, as well as others, the sponsors realized that requiring the RCA to hold

investigations and hearings was not the committee's intent. She offered her belief that the committee's intent was to require the RCA to act on an application and, in doing so, to hold hearings and investigations if the RCA sees fit. Therefore, the sponsors wanted to put on the table this part of Amendment 2 that requires RCA to act on these applications and that it "may" hold hearings and investigations in doing so.

CO-CHAIR SEATON thanked Ms. Delbridge for that clarification.

[2:16:34 PM](#)

CO-CHAIR SEATON recalled that RCA has 180 days for the precedent agreements. He observed that page 2 of Amendment 2 would provide the RCA with a 30-day timeline for making a determination on submitted agreements. Commenting that 30 days seems very short, he asked what the conversation was between the sponsors and RCA attorneys in this regard.

MS. DELBRIDGE explained that 180 days is the time period the RCA would have to respond to a public utility asking for pre-approval. Pre-approval could be a complex matter because the RCA would need to open a docket, get into the details, and figure out what goes into the tariff. It is a process that takes a little while, but the sponsors wanted to limit that to 180 days so it would not be so ongoing that it could hold up this project. The sponsors believe that 180 days is adequate time. The 30 days is specifically, and only, for when a non-utility customer submits a contract and asks the RCA to benchmark that tariff against the weighted tariff of these other utility contracts. That is simply weighing math and 30 days seemed quite reasonable. She deferred to Tina Grovier, an attorney working for AGDC, to provide further information in this regard.

[2:18:27 PM](#)

CO-CHAIR SEATON requested Ms. Grovier to address whether 30 days would be adequate for the RCA.

TINA GROVIER, Attorney, Natural Resources and Energy Law, Birch Horton Bittner & Cherot, Counsel to Alaska Gasline Development Corporation (AGDC), stated she represents AGDC and in her discussions with the Department of Law the particular topic of the number of days did not come up. She therefore presumed that it was acceptable to "them".

CO-CHAIR SEATON asked whether that was Department of Law attorneys or RCA attorneys.

MS. GROVIER replied that the attorney is the RCA's counsel, but in this context he is providing advice, as she understands it, of the Department of Law consulting with the legislature.

CO-CHAIR SEATON inquired whether the Department of Law had a copy of Amendment 2 when Ms. Grovier was talking with the attorney.

MS. GROVIER confirmed that the department did.

CO-CHAIR SEATON, noting that he was seeing people shaking their heads [in the committee room], said he wanted to make sure that the Department of Law had the 30 days before it when Ms. Grovier was having that discussion and that the department did not raise issues.

MS. GROVIER stated that when she discussed this provision with Mr. Goering he had the language before him and it had the 30-day provision in it and that was not a topic of discussion between them.

[2:20:48 PM](#)

REPRESENTATIVE GARDNER understood that the RCA did not participate last week and inquired whether the commission has any problem with the 180-day time limit.

MS. DELBRIDGE offered her understanding that the RCA, as a body with five commissioners obligated to carry out the state's laws, is not always inclined to weigh in on a policy level when a bill is underway. However, the sponsors could request that it do so. She related that in the sponsors' and Ms. Grovier's experience, it is believed that these are reasonable timeframes.

MS. GROVIER pointed out that the timeline of 6 months, or 180 days, is a standard provision in RCA timeline statutes. She said the RCA generally only exceeds that timeline in particularly complex matters, such as rate redesign or complex tariff matters.

[2:22:25 PM](#)

CO-CHAIR SEATON said he still has concern on the 30 days and would like to get AGDC's understanding as to whether 30 or 60

days makes a difference in the operation and function of these kinds of things. He presumed things do not move fast in these negotiations and he did not know how often the RCA meets.

MR. DUBLER answered that his initial thought was five days was adequate because it is a simple mathematical comparison of one number to another. While 30 days is a reasonable time period to AGDC, he thought a time period of 45 days would not cause AGDC a problem.

MS. DELBRIDGE added the RCA is a very engaged commission that meets regularly through every week, so protection is provided there. She suggested if the committee wants to change the 30 days, that a very tight timeline be kept because these will be coming before the RCA very close to the point at which AGDC and its commercial team need to resolve these kinds of conditions, such as RCA approval, to sign the firm commitments that AGDC can then take to the bank for financing to build the line. Because things will be moving quickly for AGDC, the sponsors would like to ensure that state regulatory things are not lingering.

[2:24:41 PM](#)

REPRESENTATIVE P. WILSON surmised that if the RCA was in the middle of something else, this would force it to set that aside and deal with this first.

MS. DELBRIDGE answered Amendment 2 directs that the RCA shall approve by order. She understood this to mean the RCA would simply need to issue an order that says the rates are either equal to, less than, or higher than [the weighted-average firm transportation rate]. An order would not necessarily require public hearings or a lengthy investigation.

MR. DUBLER added that if the RCA was so wrapped up in another case that it could not absolutely write anything down, the default would be that the RCA could look at the numbers without writing up an order and after 30 days it would become accepted by default. If the RCA looked at the number and it was higher, the RCA could issue an order that it did not comply and then it could be fixed. This provision does not require the RCA to do anything except look at it.

CO-CHAIR SEATON said the committee has flagged this issue, so if the 30 days is a problem the RCA is being put on notice to bring up the issue.

[2:26:44 PM](#)

CO-CHAIR SEATON stated that [Amendment 2] addresses much of the problems foreseen by the committee that protection is built into the bill that AGDC not only exercise its authority to get cheap gas, but that there be review of this under statutory requirement. He offered his thanks to the sponsors for coming forward with a mechanism to do this.

REPRESENTATIVE P. WILSON inquired whether in Version S the utilities and non-utilities are handled under different statute numbers, or where Version S actually states that both the non-utility and the utility will be dealt with.

MS. DELBRIDGE replied that the language in Amendment 2 would be inserted into Version S after the sections that were discussed on 2/24/12 that require utilities negotiating contracts with AGDC to submit those [to the RCA]. In further response, she said that this is stated in Section 25 of Version S. The non-utility is addressed under Amendment 2, page 2, line 13, and the actual term on line 13 for a non-utility is "an entity that is not a public utility".

[2:29:46 PM](#)

REPRESENTATIVE P. WILSON removed her objection to Amendment 2. There being no further objection, Amendment 2 was adopted.

The committee took a brief at-ease.

[2:31:23 PM](#)

CO-CHAIR SEATON withdrew Amendment 1, saying it would not be offered at this time.

The committee took another brief at-ease.

[2:32:42 PM](#)

CO-CHAIR SEATON moved to adopt the Letter of Intent for HB 9, dated February 27, 2012.

REPRESENTATIVE P. WILSON objected for purposes of discussion.

CO-CHAIR SEATON read aloud the Letter of Intent, written as follows [original punctuation provided]:

It is the Intent of the Legislature that a pipeline operating agreement negotiated by the Alaska Gasline Development Corporation and shippers under the authority of HB 9 will to the greatest extent possible not be held as confidential except to protect trade secrets or direct competitive advantage.

[2:33:26 PM](#)

CO-CHAIR SEATON explained that AGDC has been told to build the cheapest line possible, or the cheapest gas to Alaskans, but AGDC must come back to the legislature if there is going to be any state investment in a pipeline. He recalled that when the legislature was considering the Alaska Stranded Gas Development Act, it found that the operating agreement for that pipeline was confidential and the legislature and the public could see the terms. Thus, there was great reluctance to approve putting money into something so confidential that the legislature did not know what it was approving. He said the purpose of this Letter of Intent is to say that unless there are trade secrets or direct competitive advantage, AGDC will negotiate from the position of having the information available to the public. Presuming the pipeline goes forward and the pipeline contract comes back to the legislature for a decision to put in money, this Letter of Intent states that the legislature will have the information publicly available to discuss and can make a decision that all constituents will understand because they can see the information too.

[2:35:15 PM](#)

REPRESENTATIVE P. WILSON pointed out there have been other Letters of Intent that were not thought about in the way intended. She asked whether a conceptual amendment could be proposed that would do the same thing.

CO-CHAIR SEATON shared that in working with the sponsors, the sponsors would like to have the intent language drafted into an amendment. However, the sponsors would like to do this going forward because an amendment has not been drawn up now. He understood that it is the sponsors full intention to have a "disclose section" and that this will be done in the next committee or somewhere along the line of process. This Letter of Intent is the committee's way of encouraging that in the next committee.

REPRESENTATIVE P. WILSON asked whether the sponsor will put that on the record so the committee knows it is going to happen.

TOM WRIGHT, Staff, Representative Mike Chenault, Alaska State Legislature, on behalf of Representative Chenault, prime sponsor, confirmed that the sponsors are looking at an intent section and this intent will be evaluated along with all the other intent disclosures as the bill is moved through the process.

[2:37:06 PM](#)

REPRESENTATIVE KAWASAKI inquired whether the confidentiality exceptions extend only to the discussion on HB 9 or to AGDC as a total.

CO-CHAIR SEATON replied that AGDC is getting the authority to negotiate the pipeline deal through HB 9, so the intent of this would be that those operating agreements for any pipeline proposed by AGDC would, to the maximum extent possible, be open to the public and would not be confidential documents.

REPRESENTATIVE P. WILSON removed her objection to the Letter of Intent. There being no further objection, the Letter of Intent was adopted to be sent with the bill.

CO-CHAIR SEATON moved to public testimony.

[2:39:47 PM](#)

ALAN LEMASTER, Businessman, stated he has been a small businessman in the Copper Valley for about 30 years and it has been a struggle. He said that struggle is shared with many of his good friends and neighbors, some of whom have come and gone and some who, like him, have managed to stay on but still struggle. The primary reason for this struggle is the high cost of energy caused by electricity generated from diesel engines the majority of the year. With no contribution from the state to equalize those high costs, Gakona residents pay 2-4 times the rate applicable in other sectors of the state. He said he opposes HB 9 because, in his view, it threatens at so many levels the responsibility in charge of the very people who are attempting to obey the state mandate approved by voters. Ballot Measure 3 was passed in November 2002 by 138,353 voters, a 62 percent majority of the voters in that election. That vote established the Alaska Natural Gas Development Authority (ANGDA) to provide the following services: acquire and condition North

Slope gas; design and construct a pipeline system; operate and maintain the pipeline system; design, construct, and operate other facilities necessary for delivering gas to market and to Southcentral Alaska; and acquire natural gas market share sufficient to ensure the long-term feasibility of the pipeline system.

[2:41:41 PM](#)

MR. LEMASTER said another important provision in that act was that ANGDA may not be terminated as long as it has bonds, notes, or other obligations outstanding. He submitted that unless and until the line is built and providing the greatest number of Alaskans with the lowest cost energy available, ANGDA's obligations continue and are outstanding. The statute also states that ANGDA has the authority and the responsibility to study, develop, construct, and maintain the pipeline. In ANGDA's wisdom, it calls for the pipeline to be built along the Trans-Alaska Pipeline System (TAPS)/Richardson Highway corridor from the North Slope to Valdez with a spur line to Anchorage. Such a pipeline would provide natural gas to the greatest number of Alaskans, export as much gas as reasonable after Alaskans' needs are met, and would provide Alaska with significant profits from the sale of that gas to Pacific Rim countries or anyone else interested in this resource.

[2:42:43 PM](#)

MR. LEMASTER said he also believes that it is the authority and responsibility of the legislature and the administration to support this effort by providing ANGDA with a fully staffed board of directors and the necessary funding to continue this work to fruition. He therefore asked what gives the sponsors of HB 9 the authority to, in essence, sunset ANGDA without the permission of the voters of the state and in that process appropriate ANGDA's work into the Alaska Housing Finance Corporation with a bill that seemingly is to be the foundation of a smaller, more expensive, less effective pipeline commonly known as the "bullet line", designed to be routed along the Railbelt to serve primarily Anchorage? In his view, it would be better for Alaskans if the sponsors would withdraw HB 9 and redirect their efforts towards bringing natural gas to the greatest number of Alaskans at the lowest cost available under ANGDA's model. The democratic system of government was designed not to be run from the top down, but rather from the bottom up. In 2002 the people at the bottom directed the people at the top

to build a gasline under the auspices of ANGDA. It is now the legislature's turn to act.

2:44:30 PM

PARK KRINER, President, American Village of Alaska; Caribou Hotel, Restaurant, and Gift Shop, testified that he also has a gas station and grocery store and employs 50-60 people in the summer and about 30 in the winter. He said he has been in Glennallen for 41 years and, like Mr. LeMaster, has struggled and struggled because of the high energy cost. Last year, the electric bill for his company, consisting of several different entities, amounted to about \$240,000. He said he has been assured by Mr. Wilkemson (ph) that if the state gets a gasline and the generator engines are switched over to gas, which is easy to do, his company's light bill would be reduced to \$40,000-\$50,000 a year. The \$200,000 in savings would then be used for expansion and hiring, and the trickle down would affect every business in the Glennallen community. He noted that he is one business along the pipeline route from the North Slope to Valdez, the route that he is supports. He urged members to consider the dozens of schools, hospitals, and businesses all along that route that would be helped by the lowering of light bills by 4-5 times from current costs. Those businesses would also be more successful in hiring, building, and expanding, not to mention the shipping to markets all over the globe from the Valdez deep water port.

2:46:46 PM

MR. KRINER reminded members that 138,000 Alaskans supported the all-Alaska gasline from the North Slope to Valdez when they lobbied at the ballot box years ago. Attention should also be paid to people like former governors Egan, Hickel, and Hammond, as well as U.S. Senator Ted Stevens, all of whom supported the all-Alaska gasline after years of study. Common sense dictates that the North Slope to Valdez route is far superior to any other alternative in every aspect that has been considered. He urged getting rid of HB 9 and moving ahead with a line to Valdez that is supported by respected people. He added that the recent Cook Inlet find is one more reason for supporting a gasline from the North Slope to Valdez because Cook Inlet would support the Matanuska-Susitna Valley.

2:48:43 PM

MERRICK PEIRCE noted that he is speaking today on his own behalf, but he is a board member and CFO of the Alaska Gasline Port Authority (AGPA). The questions he posed to the committee in February remain the same and remain unanswered. He asked when the committee is going to address the most fundamental question, which is that HB 9 seeks to build a gasline at enormous cost to Cook Inlet, in which there is a 200-250 year supply of gas. He further asked when the committee will hear from those who believe that 20 trillion cubic feet of natural gas may lie under Cook Inlet. If the estimates of Cook Inlet gas reserves are only half right, there are 100 years of gas supply at current Railbelt usage. There is zero credibility to this process of vetting HB 9 if this fundamental question continues to be ignored. The excessive rate of return on equity that would be allowed under HB 9 is a tragic mistake. He said FERC typically allows returns on equity of up to 14 percent, which means that for every \$1 billion of invested equity, the investors would earn \$140 million per year. At a typical 70:30 debt-equity ratio and a \$10 billion price tag, the \$3 billion equity investment would cost Alaska gas users \$420 million per year, plus the cost of the gas, the other pipeline transportation costs, and DNR costs.

[2:50:38 PM](#)

MR. PEIRCE maintained that applying this approach of high rate of return on invested equity to the state's highways, airports, and other infrastructure is not done because it would destroy the state's economy. Alaska asks for no return on equity for public infrastructure. For example, if the methodology used in HB 9 was used to build the Parks Highway, the highway would have to be turned into a toll road and almost \$400,000 in tolls would have to be raised per day every day forever. How many people could afford to drive the Parks Highway if something that foolish was done? To make matters worse, that toll would be collected in Alaska and transferred to whatever multi-national company had made this equity investment. So the question is why the state would want to apply this approach to this or any other gas pipeline. Affordable energy is every bit as critical to Alaskans as are the state's highways, airports, and ports. Alaska will always have the longest, coldest winters in the U.S. and Alaska would place itself at a profound competitive disadvantage if everything possible is not done to ensure that Alaskans have the most affordable energy. Paying for a pipeline with double digit rates of return in invested equity is akin to buying a house and charging the house to a credit card. A high rate of return on equity reduces the value of Alaska's North

Slope gas, and with trillions of dollars in North Slope gas value the state has a compelling interest in protecting that value. It even raises the question that HB 9 violates Article VIII of the Alaska State Constitution by avoidably diminishing the value of the state's resources and denying Alaskan's maximum benefit.

CO-CHAIR SEATON closed public testimony after ascertaining that no one else wished to testify on HB 9. He invited the sponsors to speak on the bill.

[2:53:10 PM](#)

REPRESENTATIVE MIKE CHENAULT, Alaska State Legislature, refuted the earlier assertion that there is an estimated 250 years of gas supply in Cook Inlet at 20 trillion cubic feet of gas, saying that that gas has not been found. He understood that the current Cook Inlet gas infrastructure has used between 7 and 8 trillion cubic feet of gas in the last 40 years; therefore if 10 trillion cubic feet was found there could be a 40-year supply. The real issue is how many billions of dollars in exploration costs it will take to find that gas and whether it will be economical at that time. He said HB 9 is a continuation of House Bill 369, which was introduced because it was the only option that Alaska had available to move in-state gas forward in regard to the AGIA process. He asserted that people are getting lost in the minutia when talking about the size and other details, although he is not adverse to a lot of the changes made by the committee in the past few days.

[2:55:21 PM](#)

REPRESENTATIVE CHENAULT acknowledged that he cannot say whether this project will go forward, but that he can say it is the only project he sees that is moving right now that could provide gas to Alaskans. While it may not be the size or route or price that is wanted, it would bring Alaska 100-200 years supply from a confirmed gas source that would bring cheaper gas to Fairbanks and other areas. He allowed that it will not affect a lot of areas in the state tomorrow even if the gas were turned on tomorrow, but said that if nothing is ever started there will never be a result. As long as this project is moving forward, Alaska has an opportunity to get gas. Economics will drive the size of the gasline and its route, whether legislators like it or not. While not all the questions have been answered, the majority has, and the bill will likely change again before it gets to the floor. The AGIA process is already investigating a

route to Valdez, so why duplicate that project? If that project becomes economically viable, that is the project that will move forward. However, if that project does not become economically viable, this is another option that will bring gas to Alaskans.

CO-CHAIR SEATON thanked the prime sponsor for bringing forward HB 9 and invited Representative Hawker to speak.

[2:58:04 PM](#)

REPRESENTATIVE MIKE HAWKER, Alaska State Legislature, noted that getting Alaska's North Slope natural gas to market has been a vision of this state since the day construction ceased on the Trans-Alaska Pipeline System about 35 years ago. There are reasons this has not been done, he allowed, such as using the gas on the North Slope for important purposes. However, it is now time for legislators to take the actions necessary to make that dream a reality. He offered his appreciation to Representative Chenault for having the vision to bring forward HB 9 and said he has been working with Representative Chenault since the start of House Bill 369. He urged Alaskans to stop struggling against each other on this issue and that there be a converging of the different views. He said Representative Chenault is the visionary and his office is doing the technical work on the issues for a viable opportunity to build a natural gas pipeline from the North Slope to Alaska. The vision in House Bill 369, now manifested in HB 9, has been all about getting politics out of the way and empowering engineers to design the best project on the best route using the best management practices possible to bring the best technical outcome, rather than for politicians to be serving their own best special interests. He said AGDC has brought forward the project plan using the management science for megaprojects of the [Independent Project Analysis Institute]. It is the only project he has seen in his 35 years living in Alaska where a project has been brought forward with a true plan to accomplish its mission, a plan that uses formal best management practices. That is something that is very important and is why this project is postured for success.

[3:01:31 PM](#)

REPRESENTATIVE HAWKER stated that knowing how to measure success is a very important part of the vision behind HB 9. The bill does not constrain ideas or vision or the future. It is a bill that allows the people that have to make the right engineering, financial, and other decisions. The bill would provide a state

agency around which all these interests can converge to move a project forward. This bill is all about eliminating competing objectives and divergent ideas and providing the opportunity to come together with a state agency that is postured in a very powerful position and a very powerful seat at the table with the producers and others interested in delivering gas into the state. Through the marketing end that is brought together there are potential customers overseas. He related that according to the senior marketing representative from "ExxonMobil Corporation," who made a presentation at last week's Lunch and Learn, there is a niche in the world market for Alaska's natural gas. Thus, HB 9 is not about saying no, it is about the legislature finally having the chance to say yes to Alaska's future. He complimented the committee for its work and offered his appreciation for the committee's consideration of the bill, which he hoped the committee would report today.

3:04:18 PM

REPRESENTATIVE P. WILSON expressed her concern that the Alaska Housing Finance Corporation (AHFC) is already a big organization and HB 9 would require its board of directors to now oversee two big organizations. She added she is pleased that the sponsors have agreed to work on an amendment regarding confidentiality, excepting the protection of trade secrets or direct competitive advantage, which would protect everybody without keeping it totally confidential.

REPRESENTATIVE HAWKER allowed he has the same concern about this entity sharing common management with the board of directors of the AHFC. However, in looking at how to structure a future board, the board would likely include the state commissioners that are already on the AHFC board of directors. He offered his opinion that the AHFC is the single best managed organization in Alaska and that the AHFC board of directors is eminently qualified to take this work forward as a board of directors. He pointed out that the entity will have its own internal management team that is dedicated 100 percent of the time to making the AGDC project and process move forward. An important argument at this time for not changing the management at the level of the board of directors is that the ongoing federal environmental impact statement (EIS) and regulatory processes would be compromised by a change in the management and the timeframe would be set back. Once the missions have been accomplished in the future, it might be time to look into changing that management and establishing AGDC as a more autonomous function.

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REPRESENTATIVE KAWASAKI, in regard to comments that HB 9 would provide options, pointed out that the route selection is pretty specific and would miss Fairbanks by nearly 40 miles. He maintained that Fairbanks, the second largest city in Alaska and a city dealing with high energy costs, is cut out of this particular plan. He observed that the AGDC executive summary specifically states that this project plan is the final route and no more study or analysis of route selection should be undertaken by AGDC or any other state agency. He therefore asked how energy will be delivered to Interior Alaska.

REPRESENTATIVE HAWKER replied that before gas can be distributed to any community in the state, there must be backbone that brings gas through the center of the state and this project would be exactly that. The mission statement for AGDC is to make that backbone happen and to look at developing the distributive infrastructure necessary to reach communities.

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REPRESENTATIVE MUNOZ moved to report the proposed committee substitute (CS) for HB 9, version 27-LS0075\S, Nauman/Bullock, 2/25/12, as amended, out of committee with individual recommendations and the accompanying fiscal notes.

CO-CHAIR FEIGE objected, saying that page 2, Section 1, of the bill essentially mandates AGDC to follow the project plan as currently established. House Bill 369 did not ask for the pipeline route with the maximum benefit; rather, it asked for the economically feasible route. The bullet route directly to Anchorage was less expensive; however, the maximum benefit has somehow bypassed his district. This is unfair to his district, in which there is significant opposition to HB 9. As in Fairbanks, the temperatures in his district reach 40 degrees below zero and the population has declined primarily due to the lack of industry and the high cost of energy. Bypassing the people of his district is essentially writing off that part of the state, so in good conscience he cannot vote to allow the bill out of committee.

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REPRESENTATIVE KAWASAKI said it boils down to ANGDA, which was overwhelmingly established by two-thirds of the state's voters.

The measure that passed in 2002 outlined specific things, such as: how to use the state's royalty gas, which is not a consideration of AGDC; how revenue sharing with municipal governments would work, which is not proposed or supported by AGDC; plan for delivering natural gas to communities along the pipeline route and consequently a spur line to Southcentral Alaska, but [another] route has been pre-ordained by AGDC; a plan for delivering and pricing LNG to the Yukon River and coastal communities, which is not important to AGDC. By pushing through HB 9, ANGDA would be thrown under a different board of directors. He said he supports ANGDA's continued help and thinks this legislature ought to as well.

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A roll call vote was taken. Representatives Herron, Munoz, Foster, Dick, Seaton, and Wilson voted in favor of reporting Version S, as amended. Representatives Gardner, Kawasaki, and Feige voted against it. Therefore, CSHB 9(RES) was reported from the House Resources Standing Committee by a vote of 6-3.

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#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:14 p.m.