

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

April 5, 2012

4:09 p.m.

MEMBERS PRESENT

Senator Donald Olson, Chair
Senator Thomas Wagoner
Senator Linda Menard

MEMBERS ABSENT

Senator Albert Kookesh
Senator Johnny Ellis

OTHER LEGISLATORS PRESENT

Representative Mike Chenault

COMMITTEE CALENDAR

HOUSE BILL NO. 314

"An Act extending the time period for which the Alaska Railroad Corporation may lease land without reserving the right to terminate the lease; and providing for an effective date."

- HEARD & HELD

COMMITTEE SUBSTITUTE FOR HOUSE BILL NO. 9(FIN) AM

"An Act relating to the Alaska Gasline Development Corporation, a subsidiary created project developed by the Alaska Gasline Development Corporation; relating to the by the Alaska Housing Finance Corporation; establishing and relating to the in-state regulation by the Regulatory Commission of Alaska of an in-state natural gas pipeline natural gas pipeline fund; making certain information provided to or by the Alaska that is expressly authorized to provide transportation as a contract carrier; relating to Gasline Development Corporation exempt from inspection as a public record; relating the Alaska Natural Gas Development Authority; relating to the procurement of certain to the Joint In-State Gasline Development Team; relating to the judicial review of a services by the Alaska Natural Gas Development Authority; exempting property of a right-of-way lease or an action or decision related to the development or construction of project developed by the Alaska Gasline Development Corporation from property taxes an oil or gas

pipeline on state land; relating to the lease of a right-of-way by the Alaska before the commencement of commercial operations; and providing for an effective Gasline Development Corporation or a successor in interest for a gas pipeline date."

- HEARD & HELD

CS FOR HOUSE BILL NO. 264(CRA)

"An Act allowing a deferral of municipal property taxes on the increase in the value of real property attributable to subdivision of that property; and providing for an effective date."

- REMOVED FROM AGENDA

PREVIOUS COMMITTEE ACTION

BILL: HB 314

SHORT TITLE: ALASKA RAILROAD LAND LEASES

SPONSOR(S): LABOR & COMMERCE

02/06/12	(H)	READ THE FIRST TIME - REFERRALS
02/06/12	(H)	L&C
02/17/12	(H)	L&C AT 3:15 PM BARNES 124
02/17/12	(H)	Moved Out of Committee
02/17/12	(H)	MINUTE(L&C)
02/20/12	(H)	L&C RPT 5DP
02/20/12	(H)	DP: CHENAULT, THOMPSON, HOLMES, MILLER, OLSON
03/14/12	(H)	TRANSMITTED TO (S)
03/14/12	(H)	VERSION: HB 314
03/16/12	(S)	READ THE FIRST TIME - REFERRALS
03/16/12	(S)	CRA
04/05/12	(S)	CRA AT 3:30 PM BELTZ 105 (TSBldg)

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
02/27/12 (H) Moved CSHB 9(RES) Out of Committee
02/27/12 (H) MINUTE(RES)
02/29/12 (H) RES RPT CS(RES) NT 4DP 2DNP 1NR 2AM
02/29/12 (H) DP: MUNOZ, FOSTER, HERRON, SEATON
02/29/12 (H) DNP: KAWASAKI, GARDNER
02/29/12 (H) NR: FEIGE
02/29/12 (H) AM: DICK, P.WILSON
02/29/12 (H) LETTER OF INTENT WITH RES REPORT
03/13/12 (H) FIN AT 8:30 AM HOUSE FINANCE 519
03/13/12 (H) Heard & Held
03/13/12 (H) MINUTE(FIN)
03/16/12 (H) FIN AT 9:00 AM HOUSE FINANCE 519
03/16/12 (H) Heard & Held
03/16/12 (H) MINUTE(FIN)
03/20/12 (H) FIN AT 9:00 AM HOUSE FINANCE 519
03/20/12 (H) Heard & Held
03/20/12 (H) MINUTE(FIN)
03/21/12 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/21/12 (H) <Bill Held Over to 6:30 pm Today>
03/21/12 (H) FIN AT 6:30 PM HOUSE FINANCE 519
03/21/12 (H) Heard & Held
03/21/12 (H) MINUTE(FIN)
03/22/12 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/22/12 (H) <Bill Held Over to 5:00 pm Today>
03/22/12 (H) FIN AT 5:00 PM HOUSE FINANCE 519
03/22/12 (H) Heard & Held
03/22/12 (H) MINUTE(FIN)
03/23/12 (H) FIN RPT CS(FIN) NT 6DP 1DNP 3NR 1AM
03/23/12 (H) DP: FAIRCLOUGH, T.WILSON, NEUMAN,
COSTELLO, EDGMON, THOMAS
03/23/12 (H) DNP: GARA
03/23/12 (H) NR: DOOGAN, JOULE, STOLTZE
03/23/12 (H) AM: GUTTENBERG
03/23/12 (H) RESOURCES LETTER OF INTENT WITH FIN
REPORT
03/23/12 (H) FIN AT 9:00 AM HOUSE FINANCE 519
03/23/12 (H) Moved CSHB 9(FIN) Out of Committee

03/23/12 (H) MINUTE(FIN)
03/27/12 (H) TRANSMITTED TO (S)
03/27/12 (H) VERSION: CSHB 9(FIN) AM
03/28/12 (S) READ THE FIRST TIME - REFERRALS
03/28/12 (S) CRA, RES, FIN
04/03/12 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)
04/03/12 (S) <Above Item Removed from Agenda>
04/03/12 (S) MINUTE(CRA)
04/05/12 (S) CRA AT 3:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

ANNA LATHAM, Staff
Representative Kurt Olson
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Introduced HB 314.

JIM KUBITZ, Vice President
Real Estate and Facilities
Alaska Railroad Corporation
Anchorage, Alaska
POSITION STATEMENT: No comment.

REPRESENTATIVE MIKE CHENAULT
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Sponsor of HB 9.

THOMAS WRIGHT, Staff
Representative Mike Chenault
Alaska State Legislature
Juneau, Alaska,
POSITION STATEMENT: Introduced HB 9 on behalf of the sponsor.

RENA DELBRIDGE, Staff
Representative Mike Hawker
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Introduced HB 9.

DANIEL FAUSKE, President
Alaska Gasline Development Corporation
Anchorage, Alaska
POSITION STATEMENT: Provided supportive testimony for HB 9.

JOE DUBLER, Vice President

Alaska Gasline Development Corporation
Anchorage, Alaska

POSITION STATEMENT: Provided supportive testimony for HB 9.

ACTION NARRATIVE

[4:09:40 PM](#)

CHAIR DONALD OLSON called the Senate Community and Regional Affairs Standing Committee meeting to order at 4:09 p.m. Present at the call to order were Senators Menard, Wagoner and Chair Olson.

HB 314-ALASKA RAILROAD LAND LEASES

[4:09:52 PM](#)

CHAIR OLSON announced the consideration of HB 314.

[4:10:06 PM](#)

ANNA LATHAM, Staff for Representative Kurt Olson, Alaska State Legislature, said HB 314 would extend the time period for which the Alaska Railroad Corporation (ARC) may lease land without reserving the right to terminate the lease. She said the bill would extend the maximum ARC property lease terms from 55 years to 95 years.

She said railroads have historically owned large parcels of land which they lease to generate revenue. She said ARC owned approximately 36,000 acres with 260 long-term leases accounting for 2,000 leased acres. She said out of the 36,000 acres, 38 percent of the land was devoted to right-of-way, 12 percent was used for operations and the remaining 50 percent was available for lease.

She said ARC was a state owned entity with an economic mandate for statewide development and longer lease terms would be in line with that directive. She said longer leases would encourage high value building construction by assuring developers and financiers that developments would retain their value for future buyers.

She said standard leases would not be 95 years and extending terms was at the discretion of the ARC board of directors. She said HB 314 had received wide spread support from lease holders and multiple municipalities, such as Anchorage, Valdez, Seward and Whittier.

[4:12:40 PM](#)

JIM KUBITZ, Vice President, Real Estate and Facilities, Alaska Railroad Corporation, said he had no comments and was available to answer questions.

[4:12:55 PM](#)

CHAIR OLSON said HB 314 would be set aside.

HB 9-IN-STATE GASLINE DEVELOPMENT CORP

[4:13:10 PM](#)

CHAIR OLSON announced the consideration of HB 9.

[4:13:16 PM](#)

REPRESENTATIVE MIKE CHENAULT, Alaska State Legislature, said HB 9 was a continuation of HB 369, a bill passed in 2010 that dealt with an in-state gas pipeline. He said HB 9 would remove hurdles and roadblocks for the Alaska Gasline Development Corporation (AGDC) to move the pipeline project forward. He said HB 9 was a complex bill that was crafted to fit concerns of numerous departments.

[4:14:57 PM](#)

CHAIR OLSON asked how HB 9 differed from HB 369.

REPRESENTATIVE CHENAULT responded that HB 9 was enabling legislation that helped to move the in-state gas pipeline to an open season. He said HB 369 set the foundation for what a project should look like within the restrictions set by the Alaska Gasline Inducement Act (AGIA) process. He said HB 369 asked AGDC to look at the most economic pipeline route from Prudhoe Bay to "tidewater" in Southcentral. He said HB 9 would allow AGDC to proceed down a path to get to a possible open season with shippers and sellers.

[4:16:52 PM](#)

THOMAS WRIGHT, Staff for Representative Chenault, Alaska State Legislature, said HB 9 had undergone a transformation since it started out in 2011. He said HB 9 sets a framework for AGDC to serve as the state's gas pipeline entity and to continue working on the 500 million standard cubic feet per day (MMSCFD) line that would link North Slope gas to Fairbanks and the "Railbelt" at the lowest possible cost.

He said AGDC would continue to analyze where commercially feasible lines could be built to connect additional communities to natural gas. He said HB 9 would also provide AGDC with the

structure to consider other gasline opportunities now and in the future. He said AGDC would be set up to act on Alaska's behalf to participate on an aligned North Slope project with Exxon Mobil, ConocoPhillips and British Petroleum, as well as a possible project with Trans Canada.

He said HB 9 would consolidate state spending on gasline work and maximize the Alaska Natural Gas Development Authority (ANGDA) work as a gas marketing entity. He said ANGDA would be redefined as an equal subsidiary corporation under the Alaska Housing Finance Corporation (AHFC). He said ANGDA would be provided with the tools needed to act in its new role.

He said HB 9 would address uncertainties pertaining to gas pipeline regulation and whether the carrier would be able to offer contractual firm service needed to secure project financing.

He said AGDC would be empowered to act on behalf of Alaskans' best interest in proving natural gas to Alaskans. He said state and local governments would be called upon to participate in ways to reduce tariffs that Alaskans would ultimately pay for, i.e., waiving property taxes during the pipeline's construction period and requiring state and local resources be made available at usual rates.

[4:19:25 PM](#)

MR. WRIGHT said Section 1 in HB 9 expressed legislative intent and findings.

CHAIR OLSON asked if a lot of Section 1 was in HB 369.

MR. WRIGHT answered that portions were derived from HB 369.

He said Section 2 added a new section to AHFC's statutes and described AGDC's duties and abilities as a subsidiary corporation. He said AGDC would advance an in-state gas pipeline project and proceed with additional pipeline analysis once construction started. He said AGDC would manage and invest the newly created pipeline fund and noted that \$200 million was set aside last year with \$240 million required to get AGDC through an open season. He said following the open season capacity contract phase, making natural gas available to Fairbanks, Southcentral and other communities would proceed. He said AGDC may decide how a pipeline would be owned and operated, including joint ownership or operatorship. He said AGDC would exercise the state's existing right-of-way of eminent domain to acquire

property and interest in pipelines as needed. He said AGDC would manage its assets including transfer, disposal, parts or all of a pipeline project, provide transportation of natural gas by way of contract carriage and issue revenue bonds limited to AGDC's backing to carry out AGDC's purpose.

[4:23:31 PM](#)

MR. WRIGHT said Section 3 would exempt ANGDA from the state procurement code when only contracting for professional services. He said Section 3 was conforming language to Section 20.

He said Section 4 provided AGDC access to confidential information of state agencies that were directly related to designing, constructing and operating an in-state natural gas pipeline. He said the Joint In-State Gasline Development Team would change its name to AGDC.

He said Section 5 would direct state agencies to cooperate and gave priority to AGDC requests and exempted leases from common carriage covenants in the state right-of-way leasing act. He said the exemption allowed AGDC to operate as a contract carrier.

CHAIR OLSON asked what the difference was between common carrier and contract carrier.

MR. WRIGHT answered that contract carriage would allow for 20 or 30 year commitments in order to pay off bonds that may be assumed. He said the majority of pipelines in other states were contract carriage.

[4:25:58 PM](#)

SENATOR MENARD asked if there were any limitation on the amount of indebtedness.

MR. WRIGHT answered no. He said a lot was going to depend on what would happen during the open season process. He said the current project estimate was \$7.5 billion, plus or minus 30 percent.

SENATOR MENARD asked when the earliest would be for an open season.

MR. WRIGHT answered that an open season could occur by July, 2013.

RENA DELBRIDGE, Staff for Representative Hawker, Alaska State Legislature, Juneau, responded that AGDC was scheduling its open season to start in early 2013 and continue through most of the year.

[4:27:28 PM](#)

SENATOR MENARD asked about the need for a longer open season.

MS. DELBRIDGE answered that the intent was to conclude the open season by December of 2013 in order to determine if secured shipping commitments would fully support financing the project.

[4:28:12 PM](#)

CHAIR OLSON asked what would happen if shipping commitments were not secured.

MS. DELBRIDGE responded that sufficient shipping commitments would be required to move the project forward.

[4:28:45 PM](#)

MR. WRIGHT said Section 7 allowed AGDC to enter into confidentiality agreements as necessary to carry out its duties. He said municipalities and state agencies would be called upon to provide non-hydrocarbon natural resources at customary rates. He said state agencies would be required to issue permits and leases at no cost, except for permits and leases through the State Pipeline Coordinator's Office. He said AGDC would be required to bear the usual and customary costs, but costs would not be allowed to be rate based. He said AGDC would be allowed state right-of-way lease transferal to another party under the same terms and conditions via the approval of the Commissioner of the Department of Natural Resources (DNR).

He said Section 8 revised AGDC's definition, the in-state natural gas pipeline and natural gas pipeline.

He said Section 9 was conforming language that dealt with right-of-way leasing. He said Section 9, Section 10, Section 11 and Section 12 were conforming language sections to match with Section 6.

[4:30:06 PM](#)

MR. WRIGHT said Section 13 would limit judicial review of the state lease permits or other authorization decisions to superior court only and prohibited the courts from granting injunctive relief. He said a court that granted relief must be via final

judgment and claims would have to be brought within 60 days of an action for which the relief was sought.

He said Section 14 would exempt information covered by an AGDC confidentiality agreement.

CHAIR OLSON addressed Section 13 and asked why a higher court would not be allowed.

MR. WRIGHT answered that judicial review would start at superior court.

CHAIR OLSON asked if the superior court would be the final authority.

MR. WRIGHT answered that the superior court would have to issue a final judgment and could not grant injunctive relief. He said HB 9 was modeled after the Trans-Alaska Pipeline System legislation.

[4:31:24 PM](#)

MR. WRIGHT said Section 14 would exempt information covered by an AGDC confidentiality agreement from the Alaska Public Records Act.

He said Section 15 enabled ANGDA to act as a gas marketer instead of a transporter.

SENATOR MENARD asked to confirm that ANGDA did not go away.

MR. WRIGHT answered that ANGDA would be under AHFC's guidance and the AHFC board would be the board for ANGDA and AGDC.

[4:33:04 PM](#)

SENATOR MENARD confirmed that the change would be similar to a merger.

MR. WRIGHT answered yes.

SENATOR MENARD commented that ANGDA did a lot of good work regarding licensing and permitting.

MR. WRIGHT responded that ANGDA had done some preliminary work that AGDC would be able to use as a beneficial asset. He said ANGDA was originally setup as a pipeline builder and those responsibilities would be deleted in HB 9. He said ANGDA was an

active entity and HB 9 was crafted to honor the voter initiative and not do away with ANGDA.

SENATOR MENARD asked if the ANGDA board members would still remain.

[4:34:02 PM](#)

MR. WRIGHT answered that the AHFC board would act as the ANGDA board.

CHAIR OLSON asked if this was a voluntary subordination by ANGDA to come under AHFC.

MR. WRIGHT answered that Chair Olson would have to ask the ANGDA members. He said a recent audit prescribed doing away with ANGDA and the consensus was they had some assets that would be valuable to AGDC.

CHAIR OLSON asked if ANGDA had privileges that might be useful to AGDC.

MR. WRIGHT answered correct.

SENATOR MENARD asked if ANGDA would maintain their same office in downtown Anchorage.

MR. WRIGHT answered that he did not know.

SENATOR MENARD mentioned that the ANGDA board was appointed during the Palin administration.

MR. WRIGHT answered that the board was appointed in 2002.

MS. DELBRIDGE responded that the ANGDA board members had cycled through different appointment levels and confirmed that ANGDA was created by a voter initiative in 2002. She said one member of the board was a sponsor of the initiative that created ANGDA and was still on the board. She said she did not believe the board was at fully functioning numbers due to the lack of appointments. She said HB 9 sponsors believe ANGDA would serve a very critical purpose in a gasline discussion going forward. She said if ANGDA was not able to serve as the marketing arm, another subsidiary corporation would have to be created to do that. She said ANGDA had already taken on some of the marketing functions to try and work with local utilities in Southcentral and the Railbelt to help build cooperatives to arrange for space on an AGIA spur-line. She said HB 9 was a logical continuation

of some of the work that ANGDA had been involved with and it would keep intact all of the incredible work that ANGDA has done, e.g., studying how propane might be distributed throughout rural Alaska on barges.

[4:36:49 PM](#)

MR. WRIGHT said Section 16 clarified ANGDA's role as a gas marketer.

He said Section 17 allowed ANGDA and the DNR Commissioner to pledge state royalty gas for contracts entered into by ANGDA.

He said Section 18 stated that the AHFC board of directors would serve as the ANGDA board of directors.

He said Section 19 was conforming to Section 18 that allowed for board member per diem and travel expenses for when conducting ANGDA business.

He said Section 20 included legal counsel in the services that ANGDA may contract for and exempted procurement of contracted services from the state procurement code.

He said Section 21 removed involvement with a project from the circumstances regarding disclosure.

He said Section 22 expanded ANGDA's existing confidential records authority to include information in a confidential agreement between ANGDA and AGDC.

[4:38:21 PM](#)

He said Section 23 removed ANGDA's authority to exercise eminent domain as ANGDA would serve as a marketing arm and not a pipeline builder.

He said Section 24 conformed to Section 18 by defining ANGDA'S board as AHFC's board.

[4:39:25 PM](#)

MR. WRIGHT said Section 25 through Section 29 would implement a new regulatory chapter that was applicable to an in-state natural gas pipeline authorized to provide contract transportation.

He said Section 30 exempted an AGDC project from state and local property taxes during a pipeline construction period.

He said Section 31 repealed seven statutes and the majority pertained to either the Joint In-State Gasline Development Team or ANGDA.

He said Section 32 repealed a portion of the 2002 ballot measure due to ANGDA's revised authority.

He said Section 33 was transition language that expressed the legislative intent that existing right-of-way leases between AGDC and DNR were to be amended to reflect the exemption from common carriage covenants. He said the Alaska Constitution barred the legislature from passing laws that retroactively applied to contracts in place.

He said Section 34 revised instruction and Section 35 sets an immediate effective date.

[4:41:30 PM](#)

CHAIR OLSON asked for an explanation of the exemptions from Section 28 for a common carrier.

MS. DELBRIDGE answered that AGDC would operate as a contract carrier with a specified exemption from potential regulation as either a public utility or as a common carrier pipeline.

CHAIR OLSON asked how the exemption would benefit the state.

MS. DELBRIDGE responded that a clear regulatory process going forward with limited Regulatory Commission of Alaska (RCA) involvement would allow two parties to come together and form a contract. She said RCA would judge contracts just and reasonable if they are in fact done in a fair transaction, without duress or fraud.

CHAIR OLSON asked if it was two parties.

MS. DELBRIDGE answered yes. She said what Section 28 would not provide for was traditional cost based regulation that the RCA would normally do.

[4:43:34 PM](#)

CHAIR OLSON asked if there was nothing RCA could do if two parties agreed on a contract.

MS. DELBRIDGE answered that was generally correct. She said there were a few backstops.

CHAIR OLSON asked about the backstops.

MS. DELBRIDGE responded that negotiated agreements would require RCA approval. She said approved agreements would provide regulatory certainty to the people buying gas and that would enable AGDC to continue forward to get financing and start construction. She said RCA could step in if a contract with a public utility threatened public health, safety and welfare. She said a partial certificate of public convenience and necessity was created for RCA to go ahead and issue for the carrier of the gas pipeline.

[4:45:35 PM](#)

CHAIR OLSON asked if it was a federal certificate.

MS. DELBRIDGE answered no. She said RCA issued state certificates and it was a finding of whether or not the applicant was fit, willing and able to provide the service that was in the public's interest, convenience and necessity. She said this was structured due to AGDC operating on the state's behalf with a mandate to provide gas at the lowest rates to Alaskans.

CHAIR OLSON asked about the savings for the end customer from a contract carrier versus a common carrier.

MS. DELBRIDGE answered that the majority of gas pipelines throughout the Lower 48 were contract carriers. She noted that the majority of oil pipelines were common carriers. She said a contract carrier and a gasline work together because gas goes directly from the producer to the user. She said there were no big oil storage tanks in a hub that dispersed product and firm service was required without interruption. She said a common carriage line was essentially a common service where pipeline space had to be made available and current customers had to make room. She said power plants ran the risk of not receiving their gas if someone else suddenly had a contract that required their gas to be fed into the common carrier line. She said contract carriage lines were important with the natural gas pipeline and firm commitments to transfer gas for 10 or 20 years without interruption was the key to financing.

[4:48:16 PM](#)

CHAIR OLSON asked if exporting Liquefied Natural Gas (LNG) from the pipeline was in the plans.

MS. DELBRIDGE answered that there was no LNG component. She said the pipeline terminated where it hooked into the Southcentral distribution grid near Big Lake. She said the pipeline project with Trans Canada did include an LNG export component. She said an LNG facility would require a firm commitment to meet its daily production requirements.

CHAIR OLSON asked if a common carrier would more easily accommodate an LNG facility rather than a contract carrier.

MS. DELBRIDGE responded that an LNG facility would require a direct link from its gas supplier to efficiently process gas. She said sharing the pipeline with in-state users could cause space efficiency issues and affect the cost of natural gas.

[4:50:42 PM](#)

DANIEL FAUSKE, President, Alaska Gasline Development Corporation, Anchorage, said ANGDA had one employee and that individual would be transferred to AGDC offices if HB 9 passed. He said AGDC had 27 employees with the majority contracted strictly for the pipeline project. He said no bureaucracy was created in terms of ongoing operations.

He said one of the difficulties in financing a pipeline was due to Alaska's small population. He said a pipeline required long term commitments from utilities to finance the project. He said the proposed gas pipeline would be financed via revenue bonds with two layers of security provided by rating agencies and scrutiny by investors. He said the bonds and debt of AGDC would be the bonds and debt of AGDC, not of the state or AHFC. He said AGDC's bonding authority would be similar to the Northern Tobacco Securitization Corporation (NTSC) that was formed from the tobacco settlement in 1998. He said AHFC was called upon to securitize and capitalize the settlement. He said \$300 million in bonds were sold with the total indebtedness solely that of NTSC, a subsidiary of AHFC. He said the gas pipeline would be based upon the merits of the business traction taking place with investors and others involved in the project.

[4:54:20 PM](#)

MR. FAUSKE said the pipeline funding plan would require a 70/30 debt equity ratio. He said the issuance of debt was cheaper than financing equity. He said the rate of return on most large capital projects was 12 to 14 percent and the best strategy was to avoid a "big player" to come in and demand the same rate of return on all of their equity when AGDC could be selling much cheaper debt. He said a blended rate at a 70/30 ratio would

drive the pipeline tariff down and follow HB 369's mandate to deliver gas at the lowest possible cost. He said state equity participation or ownership was always anticipated and not the operation of the pipeline to keep down tariffs.

MR. FAUSKE said if the state were to own the pipeline, self-regulation via RCA involvement would add an additional hurdle and increase financing costs. He said investors want a clear path to their investment and adding a regulatory body that could step in and potentially alter cash flows would impinge on the ability to issue debt.

[4:56:58 PM](#)

He said one of the project's primary goals was to beat pricing of imported LNG to Alaska. He said the current calculated pipeline delivery rate to Anchorage was \$9.93 per Thousand Cubic Feet (MCF) and Fairbanks was \$10.45 per MCF. He noted that both rates carried a plus-minus factor of 30 percent. He said Fairbanks was currently paying \$23.33 per MCF for the same amount of British Thermal Units (BTU).

He said the pipeline's pre-project planning was guided by a three stage approach using the Front End Loading (FEL) process. He noted that the project was currently in FEL-Stage 2 phase. He said the advantage of FEL planning was the ability to address project feasibility constantly and to provide the legislature with pertinent information.

[4:58:28 PM](#)

CHAIR OLSON asked what the imported LNG rates were.

MR. FAUSKE answered that the estimated rate was between \$12 and \$16 per MCF. He noted that utilities were having difficulty negotiating LNG contracts beyond two years.

CHAIR OLSON commented that imported LNG selling at \$14 per MCF was close to the projected pipeline price of \$10.45 per MCF when the 30 percent plus-minus factor was taken into account.

MR. FAUSKE responded that was correct. He said the plus-minus factor would decrease to 10 percent when the project proceeded to FEL-Stage 3.

JOE DUBLER, Vice President, Alaska Gasline Development Corporation, Anchorage, said the imported LNG and pipeline rates were not comparable and noted that the \$14 to \$16 per MCF rate for LNG did not include delivery costs to Fairbanks. He said an

open season failure without enough commitments to fill the pipeline would lead to project abandonment.

[5:00:59 PM](#)

MR. FAUSKE said total state funding for the project was \$400 million to get to an open season. He said the legislature reserved \$200 million for the project in 2011, \$21 million was in the Governor's current capital budget and \$28.2 million had recently been received. He said the project would be revenue bond funded and the state would not outlay \$7.5 billion in capital. He said pipeline companies indicated interest in project bidding if the state spent the money required to determine project viability.

[5:02:25 PM](#)

SENATOR WAGONER asked if funding, private operator entry or an LNG manufacturer could be determined after a successful open season.

MR. FAUSKE answered yes.

SENATOR WAGONER responded that he wanted everyone to know that AGDC was not saying it was going to do this and proceed right through the process.

MR. FAUSKE answered that was absolutely correct.

MR. DUBLER responded that HB 9 would give AGDC the power to determine the appropriate ownership and bonding for the pipeline project.

[5:03:22 PM](#)

MR. FAUSKE said AGDC had completed a great deal of work and the draft for the Environmental Impact Statement (EIS) was in the hands of the U.S. Army Corps of Engineers. He noted that the EIS would be completed by May or June. He said the transfer of the state right-of-way had occurred with AHFC and HB 9 would continue the transfer. He said the federal government announced that they were prepared and had enough information to issue the federal right-of-way. He said he was proud of the fact that the state had never been this far in reference to the pipeline and noted an estimated 2,200 permits were currently required for the project.

[5:04:12 PM](#)

CHAIR OLSON asked how many permits were completed by AGDC.

MR. DUBLER answered not many. He said AGDC was still going through the regulatory work.

MR. FAUSKE commented that AGDC had a great working relationship with native corporations and people would be put to work on the project. He said a 737 mile long pipeline would deliver a lot of gas to the state.

CHAIR OLSON [announced that HB 9 would be held.]

5:04:55 PM

There being no further business to come before the committee, Chair Olson adjourned the Senate Community and Regional Affairs Committee meeting at 5:04 p.m.