

HOUSE FINANCE COMMITTEE
March 21, 2013
1:37 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:37 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Lindsey Holmes
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Mike Chenault; Representative Mike Hawker; Rena Delbridge, Staff, Representative Hawker; Sarah Fisher-Goad, Executive Director, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Ted Leonard, Executive director of Alaska Industrial Development and Export Authority; Representative Isaacson; Nick Szymoniak, Project Economist, Alaska Energy Authority.

PRESENT VIA TELECONFERENCE

SUMMARY

HB 4 IN-STATE GASLINE DEVELOPMENT CORP

HB 4 was HEARD and HELD in committee for further consideration.

SB 23 AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

SB 23 was HEARD and HELD in committee for further consideration.

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#hb4

HOUSE BILL NO. 4

"An Act relating to the Alaska Gasline Development Corporation; making the Alaska Gasline Development Corporation, a subsidiary of the Alaska Housing Finance Corporation, an independent public corporation of the state; establishing and relating to the in-state natural gas pipeline fund; making certain information provided to or by the Alaska Gasline Development Corporation exempt from inspection as a public record; relating to the Joint In-State Gasline Development Team; relating to the Alaska Housing Finance Corporation; relating to judicial review of a right-of-way lease or an action or decision related to the development or construction of an oil or gas pipeline on state land; relating to the lease of a right-of-way for a gas pipeline transportation corridor, including a corridor for a natural gas pipeline that is a contract carrier; relating to the cost of natural resources, permits, and leases provided to the Alaska Gasline Development Corporation; relating to procurement by the Alaska Gasline Development Corporation; relating to the review by the Regulatory Commission of Alaska of natural gas transportation contracts; relating to the regulation by the Regulatory Commission of Alaska of an in-state natural gas pipeline project developed by the Alaska Gasline Development Corporation; relating to the regulation by the Regulatory Commission of Alaska of an in-state natural gas pipeline that provides transportation by contract carriage; relating to the Alaska Natural Gas Development Authority; relating to the procurement of certain services by the Alaska Natural Gas Development Authority; exempting property of a project developed by the Alaska Gasline Development Corporation from property taxes before the

commencement of commercial operations; and providing for an effective date."

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REPRESENTATIVE MIKE CHENAULT testified that HB 4 would move Alaska forward by utilizing the state's natural gas resource for Alaskans. He mentioned HB 369, which formed Alaska Gasline Development Corporation (AGDC). He noted that AGDC had been tasked with revisiting the idea of an instate gasline. The project would allow gas for all Alaskans, at a reasonable price, under the constraints of Alaska Gasline Inducement Act (AGIA). He stated that AGDC recommended the components written into HB 4 that would allow for an open season to gather buyers and sellers.

Representative Chenault spoke to the need to increase revenue for Alaska. He noted that Alaskans had waited for more than 30 years for an instate gasline. He mentioned some arguments against the gasline, including the need to retain the gas cap pressure at Prudhoe Bay and Kuparuk in an effort to produce more oil and revenue for Alaska. He stated that Alaska had opportunities to move the gas off of the North Slope without disturbing oil production. He shared that the original design for the gasline was a high pressure, 24 inch pipeline, which would carry liquids from Prudhoe Bay to South Central Alaska and was termed the "bullet line."

Representative Chenault continued that further conversations yielded a new proposal for a 36 inch, 1440 PSI line traversing 800 miles to South Central Alaska. He contended that the pipe was not small when compared to other gaslines in the world. He stressed that the market, and not the legislature, would determine the size of the pipe and the location of gas delivery. He argued that the legislature could continue to hold up the only gasline project moving forward because of the belief that it did not fit particular criteria, or the legislature could leave it up to the people who "know what they are doing." He noted the complexity of the legislation and its proposal. He explained that HB 4 allowed AGDC the ability to hire the best and brightest consultants to compose the management team required to bring the multiple billion dollar project to the state. He added that HB 4 was the only project that had current state and federal permits with the intention to move the projects forward.

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Speaker Chenault stated that an expensive ad campaign had arisen to stop the project proposed in HB 4. He said that he understood the concerns raised by the community behind the ad campaign. He stated that their main argument was that the gasline was not big enough. He stated that the project was constrained by AGIA, and at some point combining the projects could be in order. He referred to a letter from the big 3 oil producers to the governor suggesting a different diameter pipeline. He said that the argument rested on the difference between a 36 and 42 inch pipeline. He said if Alaska wanted to build a 48 pipeline, it could, but someone would have to pay for it. He warned that the shippers and the buyers would not pay for space in a pipeline that they were not going to use. He advocated for providing the proper tools to corporations in an effort to move the project forward. He said that it was time for the legislature to get out of the way and allow for the project to advance. He stressed that he wanted the most powerful corporation in the market doing the states bidding. He relayed that under AGDC the project was shovel ready and all that they needed were the tools to go to work.

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REPRESENTATIVE MIKE HAWKER echoed the concerns of the previous testifier. He lamented that the greatest problem across the state was the cost and availability of energy. He asserted that HB 4 was about solutions; short, medium and long-term solutions to Alaska's energy challenges. He shared that in the short-term the Cook Inlet Recovery Act had provided heat and lights in that area for several years. He provided the example of gas trucking as a medium-term solution for the interior. He asserted that HB 4 was a bill that made long-range solutions possible for all Alaskans. He expressed his frustration regarding the lack of progress on a natural gas pipeline. He noted that the legislature had addressed the lack of progress with the creation of AGDC in order to move forward with a legislatively sanctioned process, and that process was embodied in HB 4. He emphasized that HB 4 was not an alternative to other needed solutions; particularly, the Fairbanks Trucking Proposal. He noted that the first policy objective of the bill was to deliver gas to Alaskans, as soon as possible, and at the least possible cost. He said

that the policy objective of the bill was to reduce the project and financing risk, reduce the cost, and ultimately reduce consumer rates. He stressed that HB 4 was about taking care of Alaskans first.

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Representative Hawker highlighted the six policy principles that had been incorporated into the bill:

- to minimize political influence
- to base any pipeline project going forward on a viable, commercial transaction; a market based solution in the private sector
- to make AGDC as efficient and flexible as possible
- to provide a strong and comprehensive regulatory framework
- to provide a strong governance framework with the creation of a state agency that can efficiently and effectively operate, while holding AGDC responsible under clear statutory mission and statutory responsibilities.
- to allow and support the development of future Alaska oil and gas basins

He stressed that the bill had been carefully crafted so as not to violate the terms of AGIA. He recapped that HB 4 was a balanced approach to moving a project forward and equipped AGDC for success in the endeavor. He noted that the bill would empower AGDC to shift gears and participate in any other project, to an appropriate degree, in order to help the state meet the primary objective of delivering gas to Alaskans. He noted the institutional controls written into the legislation in order to ensure that any project going forward had a commercially viable transaction underwriting the project. He explained that the legislative appropriative authority over the state was not compromised in the legislation. He emphasized that AGDC was mandated under statute to weigh the needs and interests of the residents of the state when making decisions that they must be working to deliver gas to Alaskan's at a competitive price.

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RENA DELBRIDGE, STAFF, REPRESENTATIVE HAWKER, provided a power point presentation, "An Alaska Natural Gas Future for Alaskans." She spoke to Slide 2, "Legislature in 2010 charged AGDC with the mission of getting Alaska gas to Alaskans":

- Clean, reliable, reasonably priced in state energy
- Electric and home heating costs
- Economic development for communities
- Industrial development opportunities

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Ms. Delbridge continued to Slide 3, "House Bill 369 of 2012 goals":

1. Build a team under AHFC leadership
2. Consolidate state's gas pipeline work to date
3. Fill in data gaps; decide optimal route
4. Report back to the Legislature with a project plan

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Ms. Delbridge turned to Slide 4, "AGDC delivered with the July 211 Project Plan":

- A pipeline for Alaskans is possible
- An in-state line could deliver competitively priced gas to major population centers
- Project will require firm, long-term contracts for pipeline capacity in order to support financing
- Legislative action required

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Ms. Delbridge discussed Slide 5:

- AGDC recommended legislation for the authority to:
- Determine pipeline ownership structure
 - Work confidentially with private sector partners
 - Operate as a contract carrier
 - Decide rates and tariff terms
- AGDC further needs the state to:
- Waive property taxes and state land lease fees
 - Provide sufficient funding and create a pipeline fund
 - Limit judicial review

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Ms. Delbridge continued to Slide 6, "Now, House Bill 4":

- Provides further direction for AGDC
 - Transfers existing statute from HB 369/38.34 from Joint Instate Gasline Development Team/AHFC subsidiary to AGDC
 - Incorporates HB 9, from 2012
- Provides the framework for AGDC to serve as Alaska's natural gas pipeline corporation
- Maximizes state's efforts in gas pipeline development
- Resolves regulatory uncertainties while supporting future development of Alaska resources
- Includes AGDC recommendations
- Maintains momentum - delays hurt!
 - AGDC estimates \$200 million per year inflation
 - South-central gas supply (and costs) increasingly uncertain
 - Fairbanks energy costs and air quality - no end in sight
 - Continuing expectation for state to offset high cost

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Ms. Delbridge continued to Slide7, "Under House Bill 4, AGDC will":

1. Continue work on the in-state pipeline
 - Requires sufficient shipper support to finance a pipeline
 - Target date: Gas flowing 2019
2. Work with TransCanada and producers to align two projects
 - Uncertain: no development commitment to date
3. Be prepared to participate in other frameworks
 - For example, spur line
4. Once a main line is complete, evaluate other pipeline opportunities
 - Lines off the main line connecting communities, industrial development
 - Other stand-alone Alaska gas pipelines

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Ms. Delbridge transitioned to Slide 8, "Establishes AGDC as Alaska's gas pipeline entity":

- Section 3; transition language in Section 1, Section 25
- HB 4 moves AGDC from its present location as a subsidiary of Alaska Housing Finance, to a stand-alone state corporation
- Locates AGDC under Department of Commerce, Community and Economic Development for administrative purposes only
- AGDC will be governed by a 5-member board with expertise in relevant fields, appointed by the governor, confirmed by the legislature
- Provides clear transition language

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Ms. Delbridge continued to Slide 9, "Clearly states AGDC's purpose (Section 3)":

- To advance an instate gas pipeline as described in the July 2011 project plan, with modifications as appropriate, making gas available to Fairbanks, South-central, and other communities in the state at the lowest rates possible;
- To develop pipelines serving utility and industrial customers, at commercial reasonable rates;
- To develop pipelines offering commercial rates to shippers and that offer access for shippers producing gas in Alaska
- Once a mainline is complete, to consider additional pipelines to extend the reach of gas to other communities, industrial users

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Ms. Delbridge continued to Slide 10, "Provides clear statutory abilities to AGDC to function as a corporation and to accomplish its purpose (Sec.3)":

- Enter into ownership and operating partnerships
- Create subsidiaries, including a subsidiary to market gas
- Issue revenue bonds limited to AGDC's own backing to finance a pipeline

- Enter into confidentiality agreements necessary to participate with private sector shippers, partners, financiers
- Keep confidential information like field studies and tariff models that are assets AGDC is developing for the state
- Exercise the state's existing power of eminent domain

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Ms. Delbridge spoke to Slide 11, "House Bill 4 also":

- Exempts AGDC from the state procurement code and state personnel act (Section 3; and Sections 4 and 14)
* (AGDC is currently exempt from the procurement code as an AHFC subsidiary (per HB 369 of 2010)
- Exempts AGDC from the Executive Budget Act (Section 3)
- Applies public official disclosure rules to AGDC board members (Section 15)

Ms. Delbridge turned to Slides 12 and 13, "Maximizes state's efforts in gas pipeline development":

- Additional state support for a project in the public's interest will help reduce delays and keep costs as low as possible

House Bill 4:

- Limits judicial review of state permitting decisions and authorizations to avoid delays (Section 13)
- Directs DNR to waive annual fees on a state right-of-way lease for AGDC (Section 3; Section 12)
- Waives state and local property taxes during pipeline construction (Section 22)
- Sunsets the Alaska Natural Gas Development Authority, per a 2010 Leg Audit recommendation
- Requires state entities to cooperate and share information with AGDC (Section 3)
- AGDC requests receive priority (except for AGIA requests)
- AGDC and state entities can enter into confidentiality agreements if necessary to protect third-party information in the state's possession
- Calls on the state to provide water, sand, gravel, and other non-hydrocarbon natural resources to AGDC (Section 3)

-AGDC will pay usual prices; cost cannot be included in tariff base and passed on to pipeline shippers

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Ms. Delbridge continued to Slide 14, "Resolves Regulatory uncertainties":

- Regulatory uncertainties add risk, which adds costs and can deter private sector participation. AGDC needs to know how a pipeline will be regulated before soliciting private sector partners

House Bill 4:

- Allows natural gas pipelines to operate as contract carriers through changes to the Right-of-Way Leasing Act and through Regulatory Commission of Alaska oversight

- Reinforces state policy that pipelines should be fair; offer reasonable access to new/future shippers; and encourage future development of Alaska's oil and gas resources

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Ms. Delbridge discussed Slide 15, "Why a contract carrier?":

- Shippers need to know that the space they are 'reserving' by signing long-term commitments will be available

- Those firm, uninterruptible contracts are the way gas pipelines are financed

- The future income promised through those contracts secures revenue bonds

- House Bill 4 establishes contract carrier status while providing for expansions in the future

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Ms. Delbridge continued to Slide 16, "Right of Way Leasing Act":

- Section 11: Sections 6, 8, 9 and 10 are conforming
- Includes a set of covenants a lessee must agree to
- HB 4 modifies covenants reflecting common carrier principles, to allow for contract carriage

- 'Nuts and bolts' of covenants remain the same
- Contract carrier covenants still require a pipeline, per contractual terms, to provide connections with other pipelines and facilities
- Contract carrier covenants still require expansions on commercially reasonable terms
- Contract carrier covenants still require a pipeline to ship without discrimination

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Ms. Delbridge spoke to Slide 17, "Regulatory Commission of Alaska oversight for a contract carrier gas pipeline":

- Section 21 is new regulatory chapter; Section 18 is related. Sections 19, 20, 5 are conforming)
- Mandates a baseline package of rates and terms (recourse tariff) available to all interested parties, and allows negotiations of final rates
- Requires an RCA-approved initial recourse tariff
- Requires RCA to decide if precedent agreements are 'just and reasonable'
- Premise is contracts entered into willingly by two parties are just and reasonable - with checks and balances
- Provides certainty and protection for public utilities

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Ms. Delbridge continued to Slide 18, "Recourse tariff review":

- Supported by full cost study
- Terms and conditions are 'not unduly discriminatory
- Rate elements are reasonable - return on equity, capital structure, depreciation
- Revisions required - post construction, pre-open seasons
- Triennial rate review and operating reserve fund for excess ROR

Precedent agreement review:

- Are contracts just and reasonable as evidenced by arm's length transaction?
- Heightened scrutiny for affiliate relationships

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Ms. Delbridge discussed the RCA section of the legislation on Slide 19:

- Allows confidential filing of precedent agreements; requires public filing of final contracts
- Requires a CPCN (building permit) from the RCA, with special terms for an AGDC pipeline reflecting the state-sanctioned mission
- Directs RCA to intervene when a dispute threatens the public health and safety
- Allows contracts to include dispute resolution methods that give all shippers notice and opportunity to protect their interests
- Sets standards for fair, accessible open seasons; requires open seasons for new capacity/expansions
- Directs RCA to oversee open seasons and field complaints
- Sets timelines that should not interfere with commercial processes

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Co-Chair Stoltze requested a sectional analysis.

Ms. Delbridge presented the sectional beginning with Section 1:

Section 1 - Findings and Intent

Finds that an Alaska Gasline Development Corporation (AGDC) natural gas pipeline is in the best interests of the state, and required for public convenience and necessity.

The Regulatory Commission of Alaska (RCA) uses these standards in issuing a building permit to a project. Through this section, the legislature is making these findings on behalf of the RCA.

Finds that locating AGDC under the Department of Commerce, Community and Economic Development, for administrative purposes only, will advance AGDC's mission.

Establishing AGDC as an independent state entity with a clear purpose and the statutory authority to meet its mission will make AGDC more likely to succeed.

Provides intent that AGDC's transfer from an Alaska Housing Finance Corporation (AHFC) subsidiary to a stand-alone corporation will be treated as a repositioning and not as creating a new entity.

This intent should prevent the need to dissolve AGDC and re-create it as a new corporation; as a transfer, AGDC will need to amend bylaws and regulations.

Provides intent that AGDC will procure services, labor, products and resources from Alaska businesses, including Alaska Native corporations and municipal organizations, when prices are competitive.

Provides intent that AGDC will, as possible, hire Alaskans; establish hiring facilities in Alaska; and use Department of Labor and Workforce Development systems.

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Ms. Delbridge continued to Section 2:

Section 2 (conforming) deletes from AS 18.56.086, Alaska Housing Finance Corp, Creation of subsidiaries, the ability to create a pipeline subsidiary. HB 4, Section 3, establishes AGDC as a stand-alone public corporation of the state, so it is no longer necessary for AHFC to have a subsidiary corporation related to natural gas pipelines.

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Ms. Delbridge shared Section 3, which was the statutory backbone of the new corporation:

Section 3 (new corporation) adds a new chapter, Alaska Gasline Development Corporation, to AS 31, Oil and Gas.

This section is the statutory authority for the stand-alone corporation.

Sec. 31.25.010, Structure, establishes AGDC as an independent public corporation of the state, located for administrative purposes in DCCED, and makes provisions for asset distribution upon termination.

Sec. 31.25.020, Governing body, establishes a five-member board of directors, serving staggered, seven-year terms. Members are appointed by the governor and must be confirmed by the legislature. In making appointments, the governor shall consider expertise in natural gas pipeline construction, operation and marketing; finance; and large project management. Members may be removed only for cause; vacancies will be filled in the same way as original appointments are made. Board members receive \$400 compensation per day spent on official board business, in addition to actual expenses.

Sec. 31.25.030, Meetings of board, directs the board to annually elect officers; defines a quorum as a majority of members; and requires meetings at least once every three months. Electronic meetings are allowed. For a meeting in which the board authorizes a bond issuance, at least 24 hours public notice is required. At least three board members are required for major votes, including bond sales; sale or disposition of assets; determining a pipeline ownership structure; and participation in a pipeline project.

Sec 31.25.035, Minutes of meetings, requires the board to keep minutes.

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Sec. 31.25.040, Administration of affairs, allows the board to manage the assets and business of the corporation; the board may adopt, amend, and repeal bylaws and regulations; and the board will delegate corporation administration to the executive director. Requires the board to adopt

formal procedures for procurement processes; requires a preference for Alaska veterans.

Sec. 31.25.045, Executive director, requires an executive director who is appointed by and serves at the pleasure of the board. The director may not be a board member.

Sec. 31.25.050, Legal counsel, directs the corporation to retain legal counsel.

Sec. 31.25.060, Employment of personnel, allows the board to engage professional and technical consultants, and allows the executive director to hire corporation employees and contract with consultants. The board sets duties and compensation for corporation personnel.

Sec. 31.25.065, Personnel exempt from State Personnel Act, exempts AGDC from the State Personnel Act.

Sec. 31.25.070, Purpose, directs AGDC to advance an instate natural gas pipeline as described in AGDC's July 2011 project plan, with modifications as necessary, making gas available as soon as practicable to Fairbanks, South-central, and other communities where possible; and attempt to develop projects that ship and deliver gas at commercially reasonable rates.

Sec. 31.25.080, Powers and duties, lists 21 powers of the corporation, including the abilities to determine pipeline ownership and operating structures; plan, finance, construct and operate a pipeline system; lease, rent, acquire and manage property; exercise eminent domain; transfer or dispose of all or part of a pipeline system; operate as a contract carrier; conduct hearings; sue and be sued; adopt bylaws; borrow money; and invest funds. Directs AGDC to analyze other connecting lines once the main pipeline is under construction. Prohibits development of a pipeline that competes under the terms of the Alaska Gasline Inducement Act

(AGIA). Requires publication of open season results.

Sec. 31.25.090, Confidentiality; interagency cooperation, requires state agencies to share information with AGDC; requires state agencies to cooperate with AGDC and give priority to AGDC requests, except for requests from the AGIA coordinator; and directs AGDC to avoid duplicating state work on a pipeline. State entities must provide non-hydrocarbon resources like water, sand and gravel to AGDC at usual cost, but those costs may not be passed on to pipeline customers. DNR will grant AGDC a right-of-way lease at no appraisal or rental cost if certain conditions are met; the fee waiver carries with the lease in case of a transfer, which must be approved by the commissioner. AGDC may enter into confidential agreements as necessary, including with other state entities; information covered by a confidentiality agreement is not subject to disclosure under the Public Records Act. AGDC may also keep other information confidential, including the results of field studies; technical information; trade secrets; and commercial negotiations. AGDC may waive confidentiality of some information. Once a gas pipeline is operational, AGDC must release confidential information, providing doing so does not hurt the state's economic interests and does not violate confidentiality agreements.

Sec. 31.25.100, In-state natural gas pipeline fund, establishes the instate-natural gas pipeline fund within AGDC and directs fund use.

Sec. 31.25.120, Creation of subsidiaries; sale of natural gas by a subsidiary, allows AGDC to create subsidiary corporations to meet AGDC's mission, including subsidiaries to acquire and ship natural gas.

Sec. 31.25.130, Administrative procedure; regulations, exempts AGDC from the Administrative Procedure Act, except for the Open Meetings Act portion. Provides board direction related to

bylaws, regulations, and public notice of meetings.

Sec. 31.25.140, Exemption from the State Procurement Code and the Executive Budget Act; corporation finances, exempts AGDC and its subsidiaries from the State Procurement Code and the Executive Budget Act. Requires an annual independent audit. AGDC is already exempt from the procurement code as an AHFC subsidiary; this transitions the exemption to AGDC as a stand-alone corporation.

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Sec. 31.25.150, Federal taxation of interest on bonds and bond anticipation notes, provides that, if interest on bonds or notes becomes taxable under federal income tax laws, the legislature may pay off the principal and interest.

Sec. 31.25.160, Bonds and notes, allows the corporation to issue bonds and notes in one or more series, limited to the corporation's own backing.

Sec. 31.25.170, Independent financial advisor, allows the corporation to retain a financial advisor in negotiating the private sale of bonds or notes to an underwriter.

Sec. 31.25.180, Validity of pledge, declares as valid and binding any pledge of assets or revenue of the corporation to payment or interest.

Sec. 31.25.190, Capital reserve funds, allows AGDC to establish capital reserve funds to secure its obligations, and directs fund management. Requires annual reports to the governor and legislature.

Sec. 31.25.200, Remedies, permits enforcement of rights by those holding AGDC obligations.

Sec. 31.25.210, Negotiable instruments, declares that obligations are promises to pay an amount of money.

Sec. 31.25.220, Obligations eligible for investment, AGDC obligations as legitimate investments.

Sec. 31.25.230, Refunding obligations, permits the corporation to refund obligations and provides direction for managing refunds.

Sec. 31.25.240, Credit of state not pledged, prohibits AGDC from pledging the state's credit. AGDC obligations are limited to AGDC's backing.

Sec. 31.25.250, Limitation on personal liability, protects corporation officers from personal liability.

Sec. 31.25.260, Tax exemption, exempts AGDC from paying state and local taxes on corporation property or property income.

Sec. 31.25.270, Annual report, requires an annual report to the governor, legislature and public, including an independent audited financial statement.

Sec. 31.25.390, Definitions.

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Ms. Delbridge continued:

Section 4 (procurement code exemption), adds new paragraphs to AS 36.30.850(b), Public Contracts, State Procurement Code, Application of this chapter, exempting AGDC and its subsidiaries from the state procurement code. The exemption is reinforced in AGDC's statutes (HB 4 Section 3, 31.25.140).

Section 5 (RCA accounting, conforming) amends AS 37.05.146(c)(22), Public Finance, Fiscal Procedures Act, Definition of program receipts and non-general fund program receipts.

Section 6 (gas or electric utilities, conforming) amends AS 38.05.180 (bb)(1), Public Land, Alaska Land Act, Oil and gas and gas only leasing, to conform with

Section 11 creating covenants specific to a contract carrier pipeline.

Section 7 (definitions) repeals and reenacts AS 38.34.099, Public Land, In-State Natural Gas Pipeline, Definitions, to refer to the definitions in the new 31.25 (HB 4, Section 3).

Section 8 (right-of-way leases, conforming) amends AS 38.35.100(d), Public Land, Right-of-Way Leasing Act, Decision on application, to conform to Section 11, right-of-way leasing for a contract carrier.

Section 9 (right-of-way leases, conforming) amends AS 38.35.120(a), Public Land, Right-of-Way Leasing Act, Covenants required to be included in lease, to conform to Section 11, right-of-way leasing for a contract carrier.

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Ms. Delbridge continued with the sectional analysis:

Section 10 (right-of-way leases, conforming) amends AS 38.35.120(b), Public Land, Right-of-Way Leasing Act, Covenants required to be included in lease, to conform to Section 11, right-of-way leasing for a contract carrier.

Section 11 (contract carrier covenants) adds a new section to AS 38.35, Public Land, Right-of-Way Leasing Act, to establish covenants for a contract carrier gas pipeline. This section does not alter the existing covenants in the Right-of-Way Leasing Act for a common carrier. A carrier must agree to abide by the covenants in order to receive a state right-of-way lease. Of 14 existing covenants for common carriers, 11 also apply to a contract carrier. The others are adapted to reflect contract carrier principles, while retaining the policy that pipelines on state rights-of-way should encourage broader development of oil and gas resources by expanding when commercial opportunities exist and shipping without unreasonable discrimination.

Section 12 (right-of-way leases, costs) adds a new subsection to AS 38.35.140, Public Land, Right-of-Way Leasing Act, Payment of rental and costs, requiring a right-of-way lease to be issued at no cost to AGDC. This reinforces in the Right-of-Way Leasing Act the provision in HB4, Section 3 (31.25.090, Interagency cooperation; confidentiality) that leases should be made at no rental fee/cost to AGDC.

Section 13 (judicial review) adds new subsections to AS 38.35.200, Public Land, Right-of-Way Leasing Act, Judicial review of decisions of commissioners on application, limiting judicial review of state lease, permit or other authorization decisions. Claims challenging this provision must be brought within 60 days of the effective date of HB 4; future claims alleging a constitutional violation must be brought within 60 days of the action and must be filed in superior court. The court may not grant injunctive relief.

Section 14 (personnel act exemption) exempts AGDC and subsidiaries from AS 39.25.110, Public Officers and Employees, State Personnel Act, Exempt service. This exemption is reinforced in AGDC's corporate statutes.

Section 15 (public officials disclosures) makes the board of directors of AGDC and subsidiaries subject to public official financial disclosure rules in AS 39.50.200, Public Officers and Employees, State Personnel Act, Definitions.

Section 16 (confidentiality) amends AS 40.25.120(a), Public Records and Recorders, Public Record Disclosures, Public records; exemptions; certified copies, to exempt eligible information and information covered by an AGDC confidentiality agreement from disclosure under the state Public Records Act. This relates to HB 4, Section 3 (31.25.090) allowing AGDC to keep certain information confidential.

Section 17 (RCA, conforming), amends AS 42.04.080(a), Public Utilities and Carriers and Energy Programs, Regulatory Commission of Alaska, Decision-making procedures, to allow the RCA to appoint a panel for hearing matters under the new 42.08. The RCA needs the statutory authority to appoint a panel and hear a

matter that comes before them under one of two existing regulatory statutes. This adds the new regulatory chapter created in HB 4, Section 21, 42.08, so the RCA will be able to act on matters that come up under the new regulatory chapter.

Section 18 (RCA review of public utility contracts), amends AS 42.05, Public Utilities and Carriers and Energy Programs, Alaska Public Utilities Regulatory Act, by adding a new section related to RCA review of contracts entered into by a public utility with AGDC for transportation or for contracts that public utilities sign to purchase gas or store gas transported on an instate natural gas pipeline regulated under 42.08. Public utility contracts with AGDC may include a covenant for public utilities to collect rates sufficient to meet contractual obligations. Contracts to buy or store gas to be shipped on an instate natural gas pipeline regulated under 42.08 must be submitted to the RCA before they take effect. The RCA has 180 days to approve contracts as presented or, if contracts are found not just or reasonable, to disapprove the contracts. Contracts approved are not subject to further RCA review. The RCA may extend the 180 day review period if a public utility fails to provide supplemental information that is available to the public utility. This section provides an interface between regulation of public utilities, and regulation of a contract carrier natural gas pipeline. If the RCA approves a contract involving a utility and the pipeline carrier, the utility has assurances it will be able to pass along the costs in power rates.

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Ms. Delbridge continued:

Section 19 (RCA conforming) amends AS 42.05.711, Public Utilities and Carriers and Energy Programs, Alaska Public Utilities Regulatory Act, Exemptions, to exempt a pipeline subject to regulation under 42.08 from regulation under 42.05.

Section 20 (RCA conforming) amends AS 42.06, Public Utilities and Carriers and Energy Programs, Pipeline

Act, by adding a new section to article 7 exempting a pipeline subject to regulation under 42.08 from regulation under 42.06.

Ms. Delbridge stated that Section 21 would create the new regulatory chapter for an in-state natural gas pipeline carrier.

Representative Hawker understood that the sectional was very technical. He relayed that the level of detail provided in the presentation could be limited by the committee.

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Co-Chair Stoltze requested that the presentation proceed with full details.

Ms. Delbridge continued with Section 21:

Section 21 (RCA natural gas pipeline contract carrier) adds a new chapter to AS 42, Public Utilities and Carriers and Energy Programs, to create Chapter 08, In-state Pipeline Contract Carrier. Chapter 08 applies to an instate natural gas pipeline providing contract carriage, and exempts an in-state natural gas pipeline subject exclusively to federal jurisdiction. The new 42.08 is a shift from traditional cost-based regulation, and directs the Regulatory Commission of Alaska to instead evaluate whether negotiated contracts are fair and reasonable. Checks and balances are included to set basic rules ensuring fair and open processes; to promote exploration and development of Alaska's gas basins; to protect the public welfare; to promote accountability to Alaska ratepayers; to protect against rates of return in excess of those allowed by the RCA; to ensure access for all affected parties in pipeline disputes; and to heighten scrutiny for contracts entered into by affiliated parties.

Sec. 42.08.010, Application of chapter; exemption, applies this chapter to an instate natural gas pipeline providing service as a contract carrier. Exempts an instate natural gas pipeline subject exclusively to federal jurisdiction.

Sec. 42.08.020, Qualification of the Alaska Gasline Development Corporation; findings, determines that AGDC is financially and managerially fit, willing and able to provide service under 42.08. States that an AGDC pipeline is required for the public convenience and necessity. Directs the RCA to determine whether any entity applying under 42.08 is technically fit, willing and able. The findings made on behalf of the Regulatory Commission of Alaska in this section are findings that the RCA usually needs to make in issuing a pipeline building permit - a Certificate of Public Convenience and Necessity. The advance findings are not valid for an applicant other than AGDC. For AGDC and any applicant, the RCA will need to determine whether the entity is technically able to build the project and provide the service proposed.

Sec. 42.08.220, General powers and duties, provides enabling direction for the RCA under 42.08. Requires permits for construction, interconnections, expansions and abandonment. Enables the RCA to intervene in disputes that where not accounted for in contractual dispute resolution mechanisms and that threaten the public safety and welfare. Prohibits the RCA from requiring rates or tariff regulations, except as provided in the chapter, and from conducting further review of contracts approved under 42.08. Provides RCA access to the accounts, financial and property records, and other information held by a carrier, in order for the RCA to carry out the regulatory processes in 42.08.

Sec. 42.08.230, Commission decision-making procedures, directs the RCA to appoint a panel to consider and decide matters under 42.08, and to expeditiously adjudicate matters.

Sec. 42.08.240, Publication of reports, orders, decisions and regulations, is the standard RCA direction for publishing reports, orders, decisions and regulations.

Sec. 42.08.250, Application of Administrative Procedure Act, is the standard RCA exemption from Administrative Procedure Act adjudication procedures. Instead, the RCA's adjudication procedures would apply. The rest of the Administrative Procedures Act still applies to regulations adopted by the RCA.

Sec. 42.08.260, Annual report, requires the RCA to include in its annual report activities related to 42.08.

Sec. 42.08.300, Open seasons, sets rules a carrier must follow when holding an open season. Requires a carrier include open season procedures in the carrier's approved recourse tariff. Provides parameters for holding an open season to ensure fairness and openness for all interested potential shippers, including advance notice. Requires a carrier to hold an open season for pipeline expansion when the carrier has received requests for firm service from potential shippers that would enable a commercially reasonable expansion. Provides that expansions may not violate the terms of AGIA. Allows a carrier to make presubscription agreements before an open season begins. Requires a carrier to award firm transportation service without undue discrimination or preference. Requires a carrier to file revised recourse rates before conducting an open season.

Sec. 42.08.310, Transportation service, provides that firm service can only be made available through presubscription agreements; in an open season; or through the recourse tariff. Requires a carrier to offer a recourse tariff with rates determined on a cost-of-service basis; permits levelized rates. Allows that negotiated firm transportation rates may be different from recourse rates. Requires a carrier to provide interruptible service in capacity not used in firm service.

Sec. 42.08.320, Review of certain contracts by the commission, requires a carrier to submit all

precedent agreements and substantial amendments to the RCA; precedent agreements with other than a public utility may be kept under seal. The RCA has 180 days to approve or disapprove precedent agreements as just and reasonable. Sets the standard for determining if a contract is made at arm's length and allows additional RCA scrutiny of contracts made between affiliated parties that are not substantially similar to transactions made between unaffiliated parties. Approved contracts are not subject to further review.

Sec. 42.08.330, Contract carriage certificate, requires a certificate of public convenience and necessity (CPCN) for a carrier to construct a pipeline and to transport gas. The RCA has 180 days to issue a CPCN once application is made, providing that the applicant is found fit, willing and able to perform the services proposed. The RCA may attach conditions to and amend, suspend or revoke a CPCN. Operating authority may not be transferred and service may not be abandoned without RCA approval.

Sec. 42.08.340, Filing requirements; recourse tariffs, requires an instate natural gas pipeline carrier to file a complete recourse tariff, including rules, regulations, terms and conditions pertaining to service, and all contracts with shippers.

Sec. 42.08.350, Initial or revised rates, establishes the RCA review process of recourse tariffs. The commission must verify that the terms and conditions of services are not unduly discriminatory. The commission shall review the supporting cost model and, weighing the pipeline project risks, verify that the return on equity is within a range of recent decisions by the Federal Energy Regulatory Commission (FERC); that the cost model uses a reasonable depreciation method and economic life; and that the cost model uses a reasonable capital structure. Defines reasonable as commonly accepted or used by the Regulatory Commission of Alaska or by FERC. Provides 30 days for the RCA to issue a decision on an initial recourse tariff, and 90 days for

revised recourse tariffs. Sets standards for evaluating revised recourse rates. Requires the pipeline to provide for separate rates for multiple classes of service, and allows a reservation fee.

Sec. 42.08.360, Uniform system of accounts, requires a carrier regulated under 42.08 to maintain records and accounts in accordance with the uniform system of accounts.

Sec. 42.08.370, Expansion; dispute resolution, enables contracts to provide for expansion, unless an expansion would violate the terms of the Alaska Gasline Inducement Act. Allows contracts to include procedures for resolving disputes; requires those procedures provide notice and opportunity to participate to all shippers and creditworthy potential shippers.

[2:57:20 PM](#)

Sec. 42.08.380, Regulatory cost charge, implements the standard RCA assessment of a user fee on regulated entities; includes a cap and directs administration of the user fee.

Sec. 42.08.390, Effect of chapter on taxes and royalties, declares that nothing in 42.08 will change the calculation of production taxes or of royalties due the state.

Sec. 42.08.400, Public records, requires RCA records be available to the public, except as provided by law. Precedent agreements will be kept confidential. Firm transportation and other contracts will be public, except for information that the carrier and the RCA agree could cause competitive harm.

Sec. 42.08.410, Investigations, allows the RCA to investigate matters in 42.08, and maintains the role of the Department of Law's Regulatory Affairs and Public Advocacy section.

Sec. 42.08.450, Accounts; records; triennial reports, provides the RCA tools to carry out its

regulatory duties, including requiring a carrier to maintain certain property records. Requires a carrier to keep pipeline accounts located in Alaska. Requires the carrier to file a triennial report with updated cost study and a calculation of a three-year average actual return on equity. Directs the commission to review the cost study and verify the rate elements previously reviewed (depreciation, capital structure, return on equity) are the same as previously approved. If rates of return are higher than allowed, the carrier must place the excess in an operating reserve fund, to be capped at 20 percent of average annual operating costs; the carrier may draw on this account in times of lower returns in the future. If excess continues once the fund hits the cap, the excess must be used to reduce the pipeline's rates.

Sec. 42.08.510, Designation of service agents, requires an instate natural gas pipeline carrier to file a named, permanent resident as its agent (standard RCA provision).

Sec. 42.08.520, Effect of regulations, states that regulations adopted by the RCA under 42.08 have the effect of law (standard RCA provision).

Sec. 42.08.530, Judicial review and enforcement, makes RCA final orders subject to standard RCA judicial review, except in the circumstances set forth in HB 4, Section 13, addressing the development, construction and initial operation of a natural gas pipeline by AGDC.

Sec. 42.08.540, Joinder of actions, allows appeals to be joined under applicable court rules (standard Regulatory Commission of Alaska provision).

Sec. 42.08.900, Definitions, defines terms standard to the RCA (commission, commissioner, record) and includes HB 4 terms (instate natural gas pipeline, instate natural gas pipeline carrier).

2:59:08 PM

Ms. Delbridge continued with the sectional analysis:

Section 22 (property tax exemption) adds a new subsection to AS 43.56.020, Revenue and Taxation, Oil and Gas Exploration, Production and Pipeline Transportation Property Tax, Exemptions, exempting an AGDC-owned or financed project from state and local property taxes during construction.

Section 23 (repealer) repeals 39 sections of statute.

Repeals AS 36.30.850(b)(45) Public Contracts, State Procurement Code, Application of this chapter, a prior exemption that applied to an AHFC pipeline.

Repeals AS 38.34.030, Public Land, In-State Natural Gas Pipeline, Joint In-State Gasline Development Team; 38.34.040, Duties of the Development Team; 38.34.050, Cooperation and access to information; and 38.34.060, Conflicts of interest, all of which were part of HB 369 in 2010 and relate to the Joint Instate Gasline Development Team.

Repeals AS 39.25.110(11)(G), Public Officers and Employees, State Personnel Act, Exempt Service, related to ANGDA; and AS 39.50.200(b)(57), Public Officers and Employees, Public Official Financial Disclosure, Definitions, related to ANGDA.

Repeals all of the Alaska Natural Gas Development Authority: AS 41.41.010 through AS 41.41.990.

Section 24 (repealer) repeals Sections 1 and 5 of 2002 Ballot Measure No. 3, the findings of which are no longer necessary with the sunset of ANGDA.

Section 25 (transition and intent) expresses the legislative intent that the existing state right-of-way lease between AGDC and DNR is amended to reflect the contract carrier covenants in HB 4 (the Alaska Constitution bars the Legislature from passing laws that apply retroactively to contracts in place). Also expresses intent for a smooth transition for AGDC from

its status as a subsidiary of AHFC, to an independent corporation.

Specifically, this section includes:

The intent is that this repositioning does not interfere with, delay or disrupt AGDC's work.

The intent that the governor should appoint the new AGDC board within 90 days of the effective date.

The AHFC board will remain in place until a new board is appointed; and will cooperate with the new board in a smooth transition.

The intent is that the transition is a change in placement only, and will not require dissolving AGDC and creating a new corporation.

The intent is that AGDC, including employees and directors, continue in-place while the boards are transitioning. This is not explicitly stated but rather is implied.

Section 26 includes revisor's instructions.

Section 27 sets an immediate effective date.

[3:00:43 PM](#)

Co-Chair Stoltze interjected that the bill spoke to the real intent of the legislation.

Representative Hawker offered to provide further information if necessary.

HB 4 was HEARD and HELD in committee for further consideration.

[3:02:07 PM](#)

AT EASE

[3:13:11 PM](#)

RECONVENED

#sb23

CS FOR SENATE BILL NO. 23(FIN)

"An Act relating to development project financing by the Alaska Industrial Development and Export Authority; relating to the dividends from the Alaska

Industrial Development and Export Authority; authorizing the Alaska Industrial Development and Export Authority to provide financing and issue bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."

[3:13:30 PM](#)

SARAH FISHER-GOAD, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, stated that the interior energy plan proposed in SB 23 would provide low cost, North Slope natural gas and propane. She testified that the bill was a finance package that offered by the governor to act as a catalyst to bring the liquefied natural gas (LNG) and propane customers together with the private entities that would construct and operate an LNG delivery system. She relayed that the partnership and project would be good for the Alaska Industrial Development and Export Authority, (AIDEA) and the Alaska Energy Authority (AEA). She shared that SB 23 would provide AIDEA with the opportunity to invest in the project. She stated that AIDEA was currently investigating full project feasibility and would only utilize the authorized tools written into the legislation if the project proved to make economic sense. She said that the intention was that AIDEA would take an equity stake in the project, but would not outright operate or build an LNG plant or distribution system. She relayed that the project was typical of other public/private partnerships that AIDEA had been involved in for decades. She furthered that the governor's finance package was intended to fund the initial capacity of the project with future expansion to be funded by private and community investment.

Co-Chair Stoltze hoped that an explanation of HB 74 could be integrated into the presentation.

Ms. Fisher-Goad began the presentation, SB 23 AIDEA Development Project Financing for a Liquefied Natural Gas Production and Distribution System." She discussed Slide 3, "Project Goals":

- Provide lowest-cost energy to Interior Alaska consumers as soon as possible

- Get gas first to the Interior while assuring long-term access to gas and propane from liquefaction plant for all Alaskans
- Utilize private sector mechanisms as much as possible

Ms. Fisher-Goad continued to Slide 4, "Project Description":

- Natural gas will be liquefied on the North Slope and trucked to Interior Alaska
- Propane will be produced and delivered to Interior and Rural Alaskans
- Primary LNG demand anticipated to be Fairbanks and North Pole
- LNG will be temporarily stored and re-gasified in Interior Alaska
- Natural gas distribution system with storage to supply natural gas for heating

[3:20:12 PM](#)

TED LEONARD, EXECUTIVE DIRECTOR OF AIDEA, discussed Slide 5, AIDEA Project Analysis Process: Due Diligence." He said that the funding under SB 23 would come from the Sustainable Energy Transmission and Supply Plan (SETS) created by the legislature. He spoke to the chart on the slide which included 4 phases of the project:

Phase 1 - Project Suitability Assessment

Project Sponsor Submittals

- Proposed information
- Sponsor information
- Estimated costs and timeline

AIDEA Process

- Is project consistent with AIDEA initiatives?
- What is project feasibility?
- What is the proponent's experience and Capability?
- Is AIDEA right source for financing?

Output

- Project Information Form
- Suitability Report

AIDEA Decision Making

- Project Evaluation Committee
 - Authorization to go to Feasibility Analysis

Mr. Leonard relayed that AIDEA had completed Phase 1. He shared that in December 2012 AIDEA issued a request for information (RFI) for working on the project, and had received 16 responses. He said that the project was suitable for AIDEA. He shared that the mission of AIDEA was to promote economic development through investment and financing, and the project would do both for interior Alaska. He believed that the project would provide for statewide development as the benefits of LNG rippled across the state.

[3:24:17 PM](#)

Mr. Leonard relayed that AIDEA was in Phase 2 of the process:

Phase 2 - Feasibility Analysis

Project Sponsor Submittals
Business and financing plan
Preliminary schedule
Execution/development plan

AIDEA Process

Is there a complete and attainable business and financing plan?

Is there public support?

What is the timing and status on project?

What are the risks?

Output

Reimbursement Agreement
Term Sheet
Risk Analysis

AIDEA Decision Making

Investment Committee
Authorization to go to Deal Structuring and Due Diligence
AIDEA Board
Approve Reimbursement Agreement

Mr. Leonard said that AIDEA had comprised a team of experts on permitting and site assessment from engineering firms, as well as MEI Technologies, experts in building liquefaction facilities. He stated that financial advisors had been brought in to determine the financing of the project facility and to examine the distribution system. He believed that AIDEA and ADA's ability to offer a finance package for the project was the reason they were asked to participate. He said that the demand would be ready that would support a production facility, and that the production facility would guarantee that gas would be there once it was time to finance the distribution system. He reiterated that AIDEA was in Phase 2 and that Feasibility and Due Diligence stage would take approximately two to three more months. He noted the additional phases on Slide 5, which illustrated that the board would have the final approval to move the project forward based on the due diligence that AIDEA and AEA would present. He shared that the slide was intended to illustrate how important the due diligence process is to AIDEA and AEA.

Co-Chair Stoltze recognized that Representative Isaacson had joined the gallery.

[3:27:10 PM](#)

Mr. Leonard discussed Slide 6, "Governor's Finance Package": He noted that the appropriation to the fund included three separate legs: \$150 million in AIDEA bonds, \$50 million in capital appropriation from the General Fund and \$125 million in SETS capitalization.

[3:28:01 PM](#)

Mr. Leonard discussed slide 7, "\$50 Million General Fund Appropriation":

- Purpose
 - Give AIDEA the needed equity ownership share in the North Slope LNG plant to ensure project is executed
 - Directly reduce the price of natural gas to utility customers

- How it Works

- AIDEA owns \$50 million share of the plant. This ownership stake will be an AIDEA asset
- AIDEA will not charge a return on its owned share from LNG sales to utility customers
- AIDEA can earn a return from LNG sales to non-utility customers or a sale of the asset

[3:29:25 PM](#)

Mr. Leonard discussed Slide 8, "\$150 Million AIDEA Bond Authorization":

- Purpose
 - Provide low cost capital for the build out of the natural gas distribution system
 - Make sure the utility demand for LNG is created in order to ensure the North Slope plant is fully utilized
- How it Works
 - AIDEA floats \$150 million in bonds as the distribution system is built out
 - The bond payments are incorporated in the natural gas utility's rates
 - The State of Alaska's moral obligation and the capital reserve fund reduces the bond's interest rate, directly lowering the utility price of natural gas
 - 3% to 4.5% interest rate (depending on tax-exempt status of component financed and market rates)

[3:31:40 PM](#)

Mr. Leonard discussed Slide 9, "\$125 Million SETS Capitalization":

- Purpose
 - Provide flexible, low cost financing for the North Slope LNG plant and/or the natural gas distribution system
 - The SETS fund provides flexible repayment terms, allowing AIDEA to pursue the best business structure for utility customers
- How it Works

- The existing SETS fund is capitalized with an additional \$125 million
- The non-AIDEA owner(s) of the infrastructure are directly loaned the funds with an agreed upon payment plan
- The cost of repaying the SETS loan is included in the price of the LNG
- 3% interest rate (set by SB23)

[3:32:34 PM](#)

Mr. Leonard discussed Slide 10, "\$30 Million Storage Credit":

- Purpose
 - Reduce the cost to build natural gas/LNG storage
 - Directly reduce the price utility customers pay for natural gas
- How it Works
 - \$15 million tax credit for each qualifying storage tank
 - The project is expected to have two qualifying tanks totaling \$30 million
 - The storage credit was created through previous legislative action

[3:33:33 PM](#)

Mr. Leonard discussed Slide 11, "Potential Finance Options for Initial Buildout." The slide presented a pie-chart that broke down potential finance options for initial buildout. He noted that the capital structure was similar to other projects. He pointed out that there were two sections to the project; the first was the LNG plant and would require \$220 million, the second portion would be \$205 million and would cover regasification, storage and distribution.

[3:36:37 PM](#)

Ms. Fisher-Goad presented Slide 12, "LNG Lowers Energy Costs":

Expected Utility Price per Mcf

- Wholesale LNG: \$10.15
- Natural Gas to home: \$13.42-\$17.00 per Mcf

- Delivered price is equal to \$1.79 - \$2.27 per gallon of fuel oil

Key Assumptions

- Initial costs associated with a 9 Bcf plant at start up
- Snapshot in time, costs change with expansion
- LNG plant bifurcated into two sections (industry and utility)
- \$50 million capital cost reduction applied to 6.5 Bcf utility section

Ms. Fisher-Goad explained that AEA had worked with the Fairbanks community and various stakeholders in order to determine the best targeted rate for bringing gas to Fairbanks. She said that some of the assumptions provided by private partners had been considered as well. She noted that the slide showed that the anticipation was that the LNG would lower energy costs. She stated that the plan would be bifurcated into two sections; industry and utility, with the assumption that the equity investment that was in the capital budget would be applied to the 6.5 Bcf utility section of the plant, which would savings to residential heating customers. She clarified that although AEA was working through the cost assumptions and as the engineering teams continued to refine their work, there was the slight chance that the cost margin could go up, but actual costs would not increase and there would still be a 50 percent decrease in the cost of heating homes in the community.

[3:40:17 PM](#)

Ms. Fisher-Goad discussed slide 13, "Heating Energy Supply Comparison." She believed that the slide helped to demonstrate the cost structure of using different resources for home heating. She pointed out that electricity would need to be cheaper in Fairbanks in order to be considered a heating source:

Trucked LNG is the lowest-cost option for Interior Alaska heating

- Electricity would need to be \$0.04 - \$0.06 per kWh to compete with trucked LNG
- Electricity would need to be much cheaper to compete with fuel oil

Co-Chair Stoltze requested further details on the possible savings to public utility costs for state and local agencies.

Ms. Fisher-Goad replied that she would provide the information.

[3:41:59 PM](#)

Ms. Fisher-Goad mentioned slide 14, "Household Heating Savings":

Typical Home Heating Savings

- \$2,900 - \$3,750 annually
- 43% - 55% reduction in cost

Key Assumptions

- Typical Interior Alaska household will use 225 Mcf of gas per year (equivalent to 1,700 gallons of fuel oil)
- Does not account for expected improvement in heating efficiency with natural gas

[3:42:48 PM](#)

Ms. Fisher-Goad discussed slide 15: "Air Quality":

Conversion to natural gas should reduce air pollutant emissions in Fairbanks and North Pole

- Will reduce overall emissions of PM 2.5
- Fairbanks is presently a non-attainment area for PM 2.5
- Potential public health benefits of natural gas is substantial

Impact on Federal funding and economic development

- The non-attainment area risks losing Department of Transportation and Public Facilities funding if State fails to submit an attainment plan to EPA
- Federal projects in the area face funding hurdles while area is non-attainment
- Cleaner, healthier air in Fairbanks will promote economic development

Ms. Fisher-Goad relayed that the project would help reduce air pollutant emission in Fairbanks and the North Pole area. Currently, Fairbanks was in a non-attainment area, which put federal funding at risk. She stated that the dollars that had been gathered from the northern region DOT included \$8-10 million in FMATS that could be lost and an additional \$6-8 million of funding in the non-attainment area that was not in the FMATS area.

Ms. Fisher-Goad continued to slide 16, "Savings for Public Buildings":

- Fairbanks North Star Borough School District expects immediate and significant school heating cost savings
 - Expect schools to pay back cost of converting in less than two years
 - 8 schools will have immediate access to natural gas, with more switching as the distribution system builds out
 - The first 8 schools will immediately save \$25-\$60 thousand dollars a year in heating costs

- Other State and municipal buildings should experience similar heating cost reductions

[3:44:53 PM](#)

Ms. Fisher-Goad turned to slide 17, "Long Term Use of LNG Plant":

- LNG Plant will be used after gas pipeline
 - Plant can serve Rural Alaska before gas pipeline is constructed
 - Expect opportunity to sell LNG to new industrial users both before and after pipeline
 - Information in chart is for demonstration only

She explained that the users on the left of the graph would be served by the pipeline; however, additional users could have gas trucked or provided on the river system, new industrial development was also anticipated. She noted that the facility was modular and could be re-located in a more convenient location. She noted that AEA was working through the rural energy program to determine micro-LNG possibilities. She hoped that the fuel source could be expanded to serve as many communities as possible.

[3:47:05 PM](#)

Ms. Fisher-Goad discussed slide 18, "Project Timeline and Milestones." She believed that first gas could be delivered by then end of the calendar year 2015. She mentioned that HB 74 included a direct financing program of AIDEAs, unrelated to the interior energy plan.

Co-Chair Stoltze requested further detail about the linking of the two bills: SB 23 and HB 74.

Mr. Leonard stated that there was no true linkage between the direct financing portion of HB 74 and the interior gas project in SB 23. He said that the direct financing was one of the final tools that could be used by AIDEA.

[3:49:04 PM](#)

Co-Chair Stoltze asked if SB 23 contained the tools necessary to deliver gas by 2015.

Mr. Leonard replied in the affirmative.

[3:49:34 PM](#)

Co-Chair Austerman understood that there would be a storage tank on the North Slope and another in Fairbanks.

Mr. Leonard replied yes. He furthered that the Fairbanks storage would be more costly because it would allowed the production from the plant to be stable throughout the seasons.

Co-Chair Austerman queried the cost of building the two tanks.

NICK SZYMONIAK, PROJECT ECONOMIST WITH AEA, replied that the requested \$15 million per tank would cover only a portion of the overall cost.

Co-Chair Austerman asked for the total cost of building the tanks.

Mr. Szymoniak responded that the tank in Fairbanks could be approximately \$30 million at start up, and could go up to \$70-\$100 million, depending on the size of storage needed.

[3:52:04 PM](#)

Vice-Chair Neuman asked whether SETS financing could be used to expand gas availability in the Mat-Su area.

Mr. Leonard stated that SETS funds included transmission lines for natural gas and other facilities. He said that under the SETS fund AIDEA was limited to providing financing for 35 percent of a project. He relayed that the authorization in the bill allowed AIDEA to provide more than 35 percent financing for this specific project.

[3:54:20 PM](#)

Representative Thompson requested further clarification regarding the cash grant; the \$50 million that AIDEA would have had as an asset would be reimbursed, and the rest of the funding was through loans.

Mr. Leonard responded that the \$275 million was to provide AIDEA with the ability to provide direct financing, which would all be paid back through the purchase of the gas. He added that the \$50 million was an equity investment and that return on the equity investment would occur through the industrial side of the stream.

[3:56:31 PM](#)

Representative Gara testified in support of the legislation. He wondered what might prevent the subsidizing of another gasline through the legislation.

Mr. Leonard stated that the intention of the bill was to create a production facility to provide LNG for interior Alaska with the ability to extend the resource to all Alaskans. He stressed that the pipeline would never be at the size needed for an in-state pipeline.

Representative Gara understood the intended limitations of the project in the bill, but wondered where the bill spoke to the limitation of the plant size.

[3:59:11 PM](#)

Mr. Leonard stated that the bill authorized AIDEA to invest up to \$275 million into the LNG project. He said that existing statute allowed for AIDEA to provide up to one-

third of the financing for a project, with a limited amount. He stressed that the bill was only a catalyst for the 9 Bcf plant, and if AIDEA wanted to be involved in a larger project it could not be funded through the SETS. He believed the intent of the legislation was clear.

[4:01:23 PM](#)

Representative Gara thought that limitations could be written into the title in order to clarify intent.

Mr. Leonard replied that AIDEA did not have the debt capacity to build a project the size of HB 4.

[4:02:49 PM](#)

Co-Chair Austerman understood that \$50 million was a capital appropriation for AIDEA to invest in the project.

Mr. Leonard said yes.

[4:03:32 PM](#)

Ms. Fisher-Goad pointed out that the fiscal notes included all of the funding pieces. She turned attention to the summary sheet attached to the fiscal notes, which would provide committee members with a clearer understanding of the fiscal impact of the legislation.

Representative Edgmon was pleased with the rural element of the legislation. He queried the 30 year payback period for the funding.

[4:05:06 PM](#)

Mr. Leonard clarified that the 30 year payback period was intended for the SETS loan and would be paid off over the estimated life of the plant.

Representative Edgmon asked about the process of connecting gas to residential homes.

Ms. Fisher-Goad replied that estimates had been made that had promised savings to homeowners.

Representative Edgmon understood that the numbers for residential hook-up had not been considered in the 30 year model.

Mr. Leonard replied no. He added that the funding would provide for the production and the pipe for the neighborhood, but not for conversion.

[4:07:58 PM](#)

Representative Wilson asked about the commercial aspect and how the university would fit in to the project.

Ms. Fisher-Goad replied that the university was looking into replacing their existing coal fueled, combined heat and power plant. She said that AEA would continue to work closely with the university as that project advanced. She noted that staying with coal would be cheaper for the university rather than LNG. She said that the 9 Bcf plant would not be particularly beneficial to people that were already able to enjoy lower cost fuel.

[4:10:39 PM](#)

Co-Chair Stoltze noted that the public testimony would be taken during Monday's 1:30pm meeting.

Co-Chair Stoltze discussed further housekeeping.

SB 23 was HEARD and HELD in committee for further consideration.

[4:12:25 PM](#)

ADJOURNMENT

The meeting was adjourned at 4:13 p.m.