

HOUSE FINANCE COMMITTEE
March 25, 2013
1:32 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:32 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 Lindsey Holmes
Representative Scott Kawasaki, Alternate
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

Representative David Guttenberg

ALSO PRESENT

Luke Hopkins, Mayor, Fairbanks North Star Borough, Fairbanks; John Davies, Deputy Finance Chair, Fairbanks North Star Borough Assembly, Fairbanks.

PRESENT VIA TELECONFERENCE

Jerry Cleworth, Mayor, City of Fairbanks; Bryce Ward, Mayor, City of North Pole; Lisa Herbert, Executive Director, Fairbanks Chamber of Commerce, Fairbanks; Ron Johnson, Self, Fairbanks; Bob Shefchik, Fairbanks Chamber of Commerce, Interior Gas Utility, Fairbanks; Jim Dodson, President, Fairbanks Economic Development Council, Fairbanks; David Gardiner, Golden Valley Electric Association, Fairbanks; Diane Hutchinson, Fairbanks North Star Borough Assembly, Fairbanks; William McAmis, Self, Fairbanks; Roger Burggraf, Self, Fairbanks; Derik T. Price,

Fountainhead Development Inc., Fairbanks; Dick Brickley, Self, Fairbanks; Hank Bartos, Lowell Group, Fairbanks; Bill St. Pierre, Self, Fairbanks; Jomo Stewart, Energy Project Manager, Fairbanks Economic Development Corporation, Fairbanks; Timothy Gunderson, Self, North Pole; Kenneth Pugh, Equipment Source Inc., Anchorage; Bill Bailey, Director, Public Relations, Fairbanks School District, Fairbanks; Bob Hadjukovich, CEO, ERA Alaska Aviation, Anchorage.

SUMMARY

CSSB 23(FIN)

AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

CSSB 23(FIN) was HEARD and HELD in committee for further consideration.

#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."

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Representative Thompson explained that SB 23 provided energy relief to the Interior of Alaska through development of a liquefied natural gas (LNG) system on the North Slope. The gas would be transported via trucks to the Interior. He voiced that SB 23 would reduce energy costs by 50 percent and kilowatt hours for electricity. The legislation would significantly improve air quality in Fairbanks and bring the city in compliance with pm 2.5 air quality standards enforced by the Environmental Protection Agency (EPA). Compliance eliminated the risk of losing federal transportation funding. He added that the legislation had potential to help other areas of the state. The plan was financed through a loan package and a \$50 million equity

investment by Alaska Industrial Development and Export Authority (AIDEA).

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AT EASE

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RECONVENED

Co-Chair Stoltze OPENED public testimony.

JERRY CLEWORTH, MAYOR, CITY OF FAIRBANKS (via teleconference), testified in favor of the legislation. He commented that there was broad consensus in support of the legislation. The city felt hopeful that the plan would provide much needed energy relief to the region. He related that the bill was financed through a series of loans eventually repaid by the residents of Interior Alaska. He noted that "opening up the conduit for gas" served as "insurance" for South Central Alaska if its supply constricted.

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BRYCE WARD, MAYOR, CITY OF NORTH POLE (via teleconference), spoke in favor of the legislation. He thought that the plan benefitted the entire state. The legislation "encouraged" the development of the resource for in-state use. The plan could extend to other areas of the state by providing natural gas trucked or barged to other communities. He listed the communities: Manley, Tok, Minto, Delta Junction, Tanana, Beaver, and Fort Yukon. The project would enable the state to develop its distribution system and build demand for the eventual Trans-Alaska Pipeline System (TAPS) gasline. He stated that the bill was an investment in the future of the state and that a monetary return on investment through loan repayment would occur as a result. He anticipated lower energy costs and increased economic development in the region. He urged the committee to look at all aspects related to how the bill could help the state as a whole.

LISA HERBERT, EXECUTIVE DIRECTOR, FAIRBANKS CHAMBER OF COMMERCE, FAIRBANKS (via teleconference), testified in support of the legislation. She relayed that she spoke on behalf of a 700 member organization that was anxiously awaiting the passage of the bill and lower cost energy.

Reducing the regions energy cost was the chambers highest priority. A natural gas supply would improve air quality and bring the North Star Borough in compliance with air quality standards. The result would increase economic growth. She stressed that the community could not wait any longer for lower cost energy.

In response to a question by, Co-Chair Stoltze, Ms. Herbert reported that 70 members responded to a chamber call to action to testify in support of the bill.

RON JOHNSON, SELF, FAIRBANKS (via teleconference), spoke in favor of the legislation. He reiterated support for a lower cost energy supply in the region. He thought that energy security was an issue with natural gas trucking and distribution. He cautioned that the plan should address a risk assessment to ensure a dependable supply of fuel to homes and businesses. He wondered what would happen if distribution of gas was interrupted during winter months. He pointed out that fuel oil tanks provided a safe winter's supply. Natural gas could not be stored to last through a winter. He shared other concerns. He wondered what would happen to existing fuel oil tanks once a conversion to natural gas occurred. He asked whether people could still use heating oil once gas trucking began. He wondered if an ample work force existed to carry out the conversions and whether the subsidy to convert from wood burning should continue for natural gas. He was in favor of natural gas but wanted to make sure the issues were thoroughly vetted.

Representative Wilson noted that some sections of the Fairbanks North Star Borough would remain on oil and wood heat. The bill would address more populated areas first. She related that more natural gaslines would be built as capacity increased; consequently, the workforce would build gradually.

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BOB SHEFCHIK, FAIRBANKS CHAMBER OF COMMERCE, INTERIOR GAS UTILITY, FAIRBANKS (via teleconference), testified in favor of the legislation. He encouraged examination of the issues discussed by the prior speaker. He relayed that SB 23 provided authorization for AIDEA to participate in the development of the gas trucking project. The administration's goal of providing natural gas to many residents at a cost 50 percent less than diesel, as quickly

as possible, garnered wide-ranging support. He pointed to the high cost of energy and the consequences of air quality standards non-attainment; the impacts were real and immediate. Interior residents collectively paid approximately \$400 million per year to heat homes and businesses. He thought that the bill provided many benefits including the loan repayment, conversion from a diesel based energy economy to natural gas, return an estimated \$200 million of spendable income to the economy, and compliance with air quality standards. Passage of the bill would be the first step in breaking the region free from the crippling effects of a diesel based economy. He added that the energy security issue was real and called for mass storage mechanisms in the borough for natural gas should an interruption occur.

JIM DODSON, PRESIDENT, FAIRBANKS ECONOMIC DEVELOPMENT COUNCIL, FAIRBANKS (via teleconference), spoke in favor of the bill. He stated that the bill would help save an estimated \$250 million in heating costs on an annual basis and providing additional economies in the region. He spoke to the diversification of the economy, creation of jobs and opportunities for Alaskans as results of the legislation.

Representative Gara believed there was overwhelming support for the legislation by members of the committee.

DAVID GARDINER, GOLDEN VALLEY ELECTRIC ASSOCIATION, FAIRBANKS (via teleconference), strongly supported the legislation. Golden valley served over 100,000 Interior residents. The project would allow the utility to burn natural gas in its power plant with the potential to save its members millions of dollars annually. The arrival of LNG would lower pollution, reduce heating costs, provide reduced propane costs for residents along the Yukon River, and provide LNG to Anchorage in emergency shortages of natural gas. The cooperative looked forward to assisting AIDEA with expertise and facilitate completion of the project as soon as possible. He urged the committee to support the legislation.

Co-Chair Stoltze asked whether the association had passed an official resolution on the issue. Mr. Gardiner replied in the negative, but noted he could facilitate one if needed.

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DIANE HUTCHINSON, FAIRBANKS NORTH STAR BOROUGH ASSEMBLY, FAIRBANKS (via teleconference), spoke in support of the legislation. She cited a resolution passed by the borough (copy on file). She stated that lowering energy costs was the boroughs top priority. The bill provided a short-term solution and would build the infrastructure necessary to accommodate gas when a gasline was in place. The borough welcomed projects that would provide distribution to other areas of the state. She stated that no community's economy was unaffected by businesses closing due to adverse effects of high energy costs. If businesses closed in Fairbanks a ripple effect would be felt in surrounding villages and in Anchorage and so on. She stated that the pm 2.5 noncompliance issue and subsequent penalties by the Environmental Protection Agency (EPA) would help solve the problem for Fairbanks and the state. Passage of the bill would help the "residents breathe easier."

WILLIAM MCAMIS, SELF, FAIRBANKS (via teleconference), stated support for the legislation. He concurred with all of the previous testimony. He discussed the hardships that high energy costs dealt the villages, which contributed to the de-population of the rural areas. The price of fuel oil in Fairbanks was raising and could cause decreased population in the borough. He stressed the importance of energy relief. He stated that federal highway funds would be cut off because of non-compliance with the EPA air standards. He urged for passage of the bill.

ROGER BURGGRAF, SELF, FAIRBANKS (via teleconference), spoke in support of the bill. He pointed to high energy costs that impacted the mining industry. He thought that LNG trucking was a short-term solution to the problem. He had been waiting since 1958 for Fairbanks to receive natural gas. He discussed that diesel prices were killing communities. He stressed that the EPA was "breathing down the community's neck" because of air quality violations. He did not believe a pipeline would reach the community any time soon. He stressed the immediacy of the issue. Failure to provide natural gas to the Interior within the next two years would devastate the regional economy. He accentuated that reasonable energy costs were paramount to a healthy economy. He thanked the committee for its work on the bill.

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DERIK T. PRICE, FOUNTAINHEAD DEVELOPMENT INC., FAIRBANKS (via teleconference), supported the legislation. He remarked that Fountainhead owned several hotels in Fairbanks and over a dozen large commercial buildings. The business included a manufacturing company of oil field services equipment. He noted that energy costs had a significant impact on its production costs and impacted its ability to compete with manufacturers outside Alaska. He stated that increased availability to natural gas would have a positive impact on the quality and cost of living.

DICK BRICKLEY, SELF, FAIRBANKS (via teleconference), supported the legislation. He believed energy was critical to the Interior of Alaska. The legislation would offer substantial financial relief to the region and benefit the entire state.

HANK BARTOS, LOWELL GROUP, FAIRBANKS (via teleconference), spoke in favor of the legislation. He urged the legislature to act quickly to adopt the legislation. He related personal experience in the real estate business. People were moving from the area due to high utility costs. He discussed that residents could not afford to pay utility bills and make house payments. The issue was driving residents to use wood for heating, which triggered the air quality problem. He believed the natural gas trucking plan would solve all of the energy problems.

BILL ST. PIERRE, SELF, FAIRBANKS (via teleconference), testified in favor of the bill. He related personal business experience. The high energy costs and related problems was not only a Fairbanks issue but affected the millions of dollars of Anchorage assets invested in Fairbanks. The high cost of energy was impacting the investments. Many residents were leaving. He voiced that the gas trucking plan would protect Anchorage investments and would create other business opportunities.

JOMO STEWART, ENERGY PROJECT MANAGER, FAIRBANKS ECONOMIC DEVELOPMENT CORPORATION, FAIRBANKS (via teleconference), spoke in favor of the legislation. He stated that the bill provided a "gateway" to the regions transition to an affordable and cleaner energy source as well as to global markets. Cheaper energy created a competitive advantage in the marketplace. He pointed to additional savings for the state as a result of the legislation. According to state analysis that included polling state and federal agencies

related to fuel usage in the region, the state stood to save \$5 million to \$7 million in public facilities.

Co-Chair Stoltze noted that the legislature was more concerned with savings to residents and the economy as a whole, but appreciated the information. He pointed to the importance of educating residents of the entire state on the issue. Some Alaskans feel the legislation was a "subsidy" for Fairbanks. He wanted to support the Fairbanks delegation.

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Representative Gara discussed that Southcentral Alaska had also received subsidies; the legislators were sensitive to needs of all areas of the state.

Co-Chair Stoltze remarked that "there were different ways that different parts of the state do receive benefits."

TIMOTHY GUNDERSON, SELF, NORTH POLE (via teleconference), testified in support of the bill. He shared personal information related to his family. He commented that a family member recently moved out of the state due to the cost of energy. He concurred with all of the previous testimony. He pointed to the additional benefit of propane production as a by-product of LNG. He discussed that approximately 30,000 gallons of propane per day would be produced. Propane was much simpler to transport than natural gas. Propane could be easily transported to villages along the Yukon River to storage facilities and reduce the costs of energy. He reported that the cost of propane in Galena was \$180 for 100 gallons. The cost was \$4.00 per gallon in Fairbanks. As a result of the natural gas plan the price of propane in Fairbanks will drop to \$1.20 to \$1.60 per gallon. He elaborated that the delivery of propane to outlying areas was an economic benefit for multiple areas of the state. He deduced that the lower cost of an alternative fuel may drive the cost of heating oil down due to competition. He detailed that Prudhoe Bay natural gas was composed of 12 to 15 percent propane as a byproduct. He thought that the relative ease of transporting and utilizing propane in the villages posed a major benefit for the villages as a result of the LNG trucking plan.

KENNETH PUGH, EQUIPMENT SOURCE INC., ANCHORAGE (via teleconference), testified in favor of the legislation. He related that he worked for a company based out of Fairbanks; the company used a significant amount of electricity and heat for manufacturing North Slope supplies. He was certain there were other similar entities in the region that could continue to be competitive with access to LNG. He stressed that the issue was a statewide concern and that the entire state would benefit.

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BILL BAILEY, DIRECTOR, PUBLIC RELATIONS, FAIRBANKS SCHOOL DISTRICT, FAIRBANKS (via teleconference), strongly supported the legislation. He believed that the bill was paramount to the economic health of the Interior region. He pointed to the costs of heat and power for the 34 buildings in the Fairbanks North Star School District. The district had spent approximately \$4 million on electricity and burned 478, 517 gallons of fuel oil in the 2011-2012 school year. He elaborated that the payback for the conversion to natural gas for one school in the district was only two years.

BOB HADJUKOVICH, CEO, ERA ALASKA AVIATION, ANCHORAGE (via teleconference), spoke in support of the bill. He stated that he was in the business of consuming fuel and realized that when compared to the low costs of energy in Anchorage, the Interior had a serious energy problem. He reported that his businesses experienced an over 30 percent drop in passenger traffic from the rural areas due to "dying communities." He noted the strategic nature of Fairbanks in relation to the state's transportation network and its location to the North Slope. He wanted a way to make it economical to live and operate there. Businesses cannot compete with Anchorage or other areas. He encouraged passage of SB 23.

LUKE HOPKINS, MAYOR, FAIRBANKS NORTH STAR BOROUGH, FAIRBANKS, testified in support of the legislation. He highlighted that an important element of the plan was that the loans would be repaid. Fairbanks may not have the highest home heating costs, but viewed the project as providing relief to other communities as well via trucking. He noted that the saving to the borough for public facilities was \$1.5 million at an estimated price of natural gas of \$15 Mcf (thousand cubic feet). The air

quality issue was a "major concern." The LNG gas trucking plan was a major first step of a "viable state implementation plan" to bring the borough into compliance with the EPA air quality requirements. He thought the plan would help satisfy the EPA demands. He pointed to the importance of solving the air quality issue. He asked the committee to report the bill from committee.

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JOHN DAVIES, DEPUTY FINANCE CHAIR, FAIRBANKS NORTH STAR BOROUGH ASSEMBLY, FAIRBANKS, spoke in support of the legislation. He agreed with all of the previous testimony. He noted the high energy costs in the Interior estimated at \$600 million per year; space heating alone amounted to \$200 million. Cutting space heating costs in half represented substantial savings to rate payers. He reminded the committee that project financing was primarily a loan package repaid by the rate payer. He stated that the investment offered a 20 percent annual pay back. The \$15 Mcf price of natural gas was the equivalent cost of cord wood selling for \$250. He commented on the necessity to maintain the \$15 Mcf price for natural gas to encourage residents to switch from burning wood and bring the pm 2.5 levels into compliance. He believed the issue was the most important for the Interior of Alaska. He urged for swift passage of the bill.

Representative Gara offered that low cost energy had "eluded" many residents across the state especially in rural Alaska. He asked how the legislation provided relief for rural Alaska. Mr. Davies replied that the propane option was the most likely option to provide energy relief for Interior rural communities. The costs "penciled out." Emerging technology that confined natural gas in containers, CNG Tanks (compressed natural gas) were "problematic." The costs were not "economically feasible." He explained that if compressed gas was transported and converted at a local facility it became economical in a village wide setting.

Co-Chair Stoltze CLOSED public testimony. He noted that Fairbanks consolidated its public testimony.

Representative Wilson announced that GVA (GVEA - Golden Valley Electric Association) served a large portion of the Interior. The legislation provided relief for electricity

in farther reaches of the Interior region. She knew that other regions of the state had higher energy costs. She hoped that serving the Fairbanks region was only the first step in utilizing North Slope gas and would spread to other areas of the state with higher energy costs. She stated that for a "resource rich" state energy costs were extremely high.

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Co-Chair Austerman requested a report from AIDEA on the propane option and costs to consumers. He wondered whether AIDEA performed analysis on utilizing propane for the plan.

Representative Kawasaki agreed that the project provided the fastest way to get gas to the Interior. He noted the plan was a "bridge project" and not the final project that was necessary to benefit the entire state. He appreciated the bills rapid passage through the legislature.

Representative Thompson guessed that providing energy relief to the villages along the Yukon River had the potential to reduce PCE (Power Cost Equalization). He believed there would be cost savings to the state.

Co-Chair Stoltze mentioned a phone conversation with former Representative Jay Ramras. He cited a statistic provided by Mr. Ramras. He believed that Fairbanks was the largest population in the world located at its latitude that ran on diesel power.

Co-Chair Austerman asked for AIDEA to include the Alaska Energy Authority's work in the report on propane.

Representative Gara restated that the project was a stopgap measure. He believed the more time the state could gain with short-term solutions the more time it had to make smart decisions related to a gas pipeline project.

CSSB 23(FIN) was HEARD and HELD in committee for further consideration.

Co-Chair Stoltze discussed the schedules for the following day.

ADJOURNMENT

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The meeting was adjourned at 2:53 p.m.