

HOUSE FINANCE COMMITTEE  
March 26, 2013  
1:39 p.m.

1:39:16 PM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:39 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

John Davies, Fairbanks North Star Borough, Fairbanks; Tim Navarre, Council Member, City of Kenai and Co-Chair, ASAP Community Advisory Council, Kenai; Representative Mike Hawker, Sponsor; John Bitney, State Government Liaison, North Slope Borough; Representative Mike Chennault; Representative Bob Herron.

PRESENT VIA TELECONFERENCE

Rick Rogers, Executive Director, Resource Development Council, Anchorage; Ron Long, Alaska Gasline Development Corporation Community Advisory Council, Seward; Bill Sheffield, Former Governor of Alaska, Juneau; David Pruhs, Self, Fairbanks; Bob Shefchik, Chair, Chamber Energy Committee and Chair, Interior Gas Utility Board, Fairbanks;

Jim Plaquet, Alaska Support Industry Alliance, Fairbanks; Jomo Stewart, Fairbanks Economic Development Corporation, Fairbanks; Merrick Peirce, Self, Fairbanks; Deantha Crockett, Executive Director, Alaska Miner's Association, Anchorage; Alan LeMaster, Director, Alaska Natural Gas Pipeline Coalition, Copper Valley; Jason Hoke, Regional ARDOR, Copper Valley Development Association, Copper Valley; Ken Hall, Self, Fairbanks; Todd Wegner, Assistant City Manager, Valdez; Tom Maloney, Self, Anchorage.

SUMMARY

HB 4           IN-STATE GASLINE DEVELOPMENT CORP

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

#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."

Co-Chair Stoltze noted the presence of Representative's Herron, Hawker, and Chenault. He discussed the agenda for the afternoon.

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JOHN DAVIES, FAIRBANKS NORTH STAR BOROUGH, FAIRBANKS, spoke in favor of the legislation. He pointed to a Fairbanks North Star Borough Assembly resolution related to the assembly's 2013 legislative priorities; the list included an instate gas pipeline that would deliver gas to the Interior and other state regions. He relayed that the borough was in favor of any solution that would bring gas to the Interior. He referred to the assembly's support for separate legislation that offered a near-term solution via the trucking of liquid natural gas (LNG) to the Interior. The assembly was supportive of an LNG line to Valdez. He stressed that the need was immediate.

Representative Gara asked how Mr. Davies would view the option of a larger pipeline to Valdez that would provide cheaper in-state gas and increased revenue. Mr. Davies replied that a larger or smaller pipeline option would be fine. He noted that there would be advantages and disadvantages to either option. The borough believed it was most important to move forward to address the need.

Co-Chair Stoltze asked for verification that the borough preferred a plan that would bring gas to Fairbanks by 2015. Mr. Davies responded in the affirmative.

[1:45:51 PM](#)

TIM NAVARRE, COUNCIL MEMBER, CITY OF KENAI and CO-CHAIR, ASAP COMMUNITY ADVISORY COUNCIL, testified in support of the legislation. He shared that the ASAP council had met throughout the state to gain information for the public. He

believed HB 4 was the right move. He applauded the legislature for bringing the issue forward in 2009. He discussed that in 2009 Southcentral utilities had not been looking at importing LNG and Fairbanks had not been looking at a 25 CMF utility cost. He spoke to the \$120 million in funding provided to the Alaska Gasline Development Corporation (AGDC) and the need to determine whether an open season would be successful. He did not believe a statewide energy plan that included imported LNG was the answer. He urged the committee to support the legislation. He believed it was the only option available under the Alaska Gasline Inducement Act (AGIA). He opined that the option gave the state leverage in the promotion of AGIA. He believed the bill was in the best interest of Alaskans. He stressed that even a failure would bring more success than no action.

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RICK ROGERS, EXECUTIVE DIRECTOR, RESOURCE DEVELOPMENT COUNCIL, ANCHORAGE (via teleconference), vocalized support for the bill. He spoke to the council's diverse membership and noted the importance that the bill did not pit one energy resource against another. The council believed the best energy solutions for Alaskans were the ones that would balance low cost with reliability over the long-term. He stated that the bill would provide the resources to advance an instate pipeline to an open season. The open season would enable the project to compete for transportation commitments; it would succeed or fail on its economic merits. The council was hopeful that a larger diameter pipeline to tidewater would be sanctioned in the future. He stated that HB 4 positioned the gasline authority to help expand intrastate gas transportation from the off-take points required under AGIA. The council did not believe that a standalone gasline project diminished the prospects of a larger capacity line. He stated that private enterprise and the marketplace would dictate the best gasline option. The council encouraged the addition of a sunset provision to the AGDC enabling legislation should the entity be rendered obsolete in the future. He furthered that the viability of the project would not be known until an open season took place. He stressed that the delivery of reliable and cost-effective energy to Alaskans was critical to the future prosperity of its people. He stated that HB 4 was an appropriate means to advance a pipeline project forward.

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RON LONG, ALASKA GASLINE DEVELOPMENT CORPORATION COMMUNITY ADVISORY COUNCIL, SEWARD (via teleconference), spoke in favor of the legislation. He urged the committee to keep the process moving forward. He supported a large line to Seward, but believed a near-term solution was necessary to address the problem. He did not believe the crisis confronting the Railbelt utilities had been foreseen when the AGIA process had begun in the past. He noted that dire and drastic options had been discussed to accommodate for the projected revenue shortfall. He spoke to high heating costs. He stated that the near-term and long-term projects were not exclusive. The project under HB 4 had permitting and background work that would enable a project to proceed in the near-term and included the possibility of extending gas to other areas of the state in the future. He did not believe that the project would do any harm to other proposals.

Co-Chair Stoltze remarked that he believed Port MacKenzie was export port of the future.

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BILL SHEFFIELD, FORMER GOVERNOR OF ALASKA, JUNEAU (via teleconference), voiced support for the legislation. He stated that the passage of HB 4 would be an important step towards delivering a long-term and affordable source of energy to a large portion of the state's population. He elaborated that the bill would provide near-term and ongoing employment opportunities. He added that the bill would allow for the potential reopening of Kenai's Agrium plant. He stated that HB 4 could help the Foothills refinery in Fairbanks to return to full operation; it would also help Fairbanks to resolve its air quality problems and reduce monthly energy costs. He discussed that proposed mining operations would benefit from affordable energy and increased jobs would result. He recalled that Foothills had shipped a substantial amount to the Anchorage port on the Alaska Railroad in the past; the company had shut down a large portion of its plant and its shipment had declined dramatically. He pointed to vehicle gasoline coming from the Lower 48. He emphasized that the creation of thousands of jobs and a reduced cost of living for residents was significant. He stated that the instate line prospect

headed up by the Alaska Housing Finance Corporation (AHFC) had moved "leaps and bounds" forward; an Environmental Impact Statement (EIS) and most right-of-way approvals had been secured. He stressed that passing HB 4 was critical to moving the project forward to an open season.

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Former Governor Sheffield stated that an open season could be concluded by the end of 2014 and the gasline could subsequently be completed in 2019. He believed gas was for Alaskans to use and was separate from the oil revenues the state depended on for public services. He elaborated that the project would allow the state to support its own energy needs at an affordable cost for generations to come. His interest in the project related to the well-being of Alaskans and his long-term residency in the state. He thanked the committee for its time.

REPRESENTATIVE MIKE HAWKER, SPONSOR, thanked former Governor Sheffield for supporting the legislation.

Representative Gara asked if the former governor had testified that the pipeline would be directed towards the Kenai area to help the Conoco and Agrium plants. Former Governor Sheffield replied that the gasline was planned to travel through the Matanuska Valley where gas was currently taken and trucked to Fairbanks. There were pipelines underneath the inlet towards Nikiski. He answered that the pipeline would connect up to transport gas to Nikiski if the state wanted to sell excess gas to another location.

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Co-Chair Stoltze thanked Governor Sheffield for his continued interest in government and the issue. He acknowledged the former governor's success in bringing economic development to rural Alaska. He pointed to the implementation of the Red Dog Mine and the creation of Alaska Industrial Development and Export Authority, (AIDEA). He noted that without the former governor's work some of the current opportunities for the state would not exist.

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DAVID PRUHS, SELF, FAIRBANKS (via teleconference), thanked the sponsors for introducing the bill that he hoped would provide a long-term solution to reduce energy costs throughout the state. He stated that the gasline would benefit approximately 75 percent to 80 percent of the state. He pointed to high fuel costs. He stressed that HB 4 offered a solution that would fit the needs of residents and government.

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BOB SHEFCHIK, CHAIR, CHAMBER ENERGY COMMITTEE, AND CHAIR, INTERIOR GAS UTILITY BOARD, FAIRBANKS (via teleconference), testified in support of the legislation. He explained that the ASAP line and HB 9 had been priorities of the Fairbanks Chamber Energy Committee the prior year; the support was maintained for HB 4. He remarked that piped gas was seen by most as the best form of transport from the North Slope. He stated that piping gas would require more demand and a longer-time frame than a proposed gas trucking project; however, he believed piped gas remained the long-term solution to provide access to Alaskans. He stated that the bill created the entity and provided the underpinnings for an instate line from the North Slope. He opined that the economic viability would be proven in the development of the project. He spoke in support of building on work conducted by AGDC. He shared that the bill was supported by the chamber and the utility board. He stated that although the community's focus had been on addressing immediate solutions, the work towards developing a long-term solution was valued.

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JIM PLAQUET, ALASKA SUPPORT INDUSTRY ALLIANCE, FAIRBANKS (via teleconference), spoke in favor of the bill. He stressed that the bill would provide the most cost-effective and time sensitive schedule for developing a long-term, affordable energy solution for Fairbanks and the state. He stated that the bill would allow AGDC to work to provide Alaskans with energy needed for space heating and economic survival. He discussed that the bill directed AGDC to develop a pipeline at the lowest cost without delay. He discussed items allowed under the legislation. He stated that the legislation called on state and local governments to participate in lowering costs for Alaskans. He stressed that high energy costs were crippling the Interior and

rural Alaska. He emphasized that the bill would provide low cost energy for Alaskans in the long-term.

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JOMO STEWART, FAIRBANKS ECONOMIC DEVELOPMENT CORPORATION, FAIRBANKS (via teleconference), testified in support of HB 4. He discussed that energy was a fundamental component of any modern economy. He stressed that the availability and affordability of energy was critical. He stated that in general the corporation was supportive of any project that linked Alaska's two oil and gas producing regions to make energy more available and accessible to Alaskans in the near-term and in the future. The corporation was also generally supportive of the advancement of mechanisms that allow Alaska to more actively participate in the development of its resources. He believed the bill supported the corporation's goals.

Co-Chair Stoltze noted that Representative Wilson had joined the meeting.

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MERRICK PEIRCE, SELF, FAIRBANKS (via teleconference), spoke in opposition to the bill [back up documents were provided to the committee (copy on file)]. He discussed Asian interest in gas and that the state's partner in AGIA had been nonresponsive. He stated that the concept of a bullet-line had been rejected by voters in a 2002 election. He believed that the bullet-line project under the legislation did not have economy of scale. He noted that debt and equity returns were enormous. He detailed that a 75 percent to 25 percent debt-to-equity ratio would mean combined service costs of \$500 million to \$600 million per year, which was approximately \$1,400 per user per year.

Mr. Peirce mentioned items related to gaining buyers for expensive bullet-line gas including the large supply of shale gas in the Lower 48. He wondered why a buyer would pay two to three times the Henry Hub price for gas from a bullet-line. He stated that a gasline through the Cook Inlet basin would be more cost effective. He acknowledged AGDC technical staff for providing new tools for the state. He pointed to a publicly owned right-of-way between Big Lake and Fairbanks. He mentioned new spool-able high pressure pipe that offered a cheaper option than steel

pipe; it was possible to run an 8 inch flex-steel pipeline from Big Lake to Fairbanks for a much lower cost in the upcoming year. He provided additional information about the benefits of the flex-steel pipe; costs were low and installation was simple. He detailed that an 8 inch pipe could deliver between 8.4 billion to 11 billion cubic feet of gas per year depending upon the number of compressors used. He suggested giving the project to AGDC. He believed the concept of using a small pipeline integrated well with Cook Inlet development; developers would like to have Fairbanks as a market for gas. He discussed other ways the flex-steel pipeline would integrate well. He would provide the information in writing.

Co-Chair Stoltze asked Mr. Pierce to follow up with written documents.

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DEANTHA CROCKETT, EXECUTIVE DIRECTOR, ALASKA MINER'S ASSOCIATION, ANCHORAGE (via teleconference), spoke in strong support of the legislation. She discussed that the legislation and its pursuit of large energy projects would work to relieve Alaskan residents from the dire energy situation. She communicated that large mines in Alaska struggled with power at a substantial level; therefore the association was very supportive of the bill. She shared that mining companies faced a perpetual cost-benefit analysis due to the high expense of operating in the state. She furthered that mining in Alaska had great prospects, but the lack of infrastructure was a deterrent to companies. She stressed that energy solutions were very beneficial to the industry. She relayed that the mining industry would provide demand for the project. She noted that the industry was pursuing gas pipelines that would connect directly with mining projects. She stated that the project would also allow Alaska to viably market its gas commercially in other outside locations. She added that a letter of support had been submitted to the committee (copy on file).

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ALAN LEMASTER, DIRECTOR, ALASKA NATURAL GAS PIPELINE COALITION, COPPER VALLEY (via teleconference), spoke in opposition to the bill. He discussed the coalition's membership that was in support of a gas pipeline from the

North Slope to Prince William Sound. He noted that some of the member organizations included the Fairbanks North Star Borough, the City of Fairbanks, Delta, North Pole, the Copper Valley Chamber of Commerce, the City of Valdez, and other. He stated coalition's concern was that HB 4 appeared to be targeted at placing natural gas in the Anchorage bowl and surrounding areas in a way that would not benefit many residents along the Trans-Alaska Pipeline System (TAPS) corridor.

Mr. LeMaster stressed the importance of adopting a solution that would benefit all Alaskans. He had recently attended a House Resources Committee meeting where producers had presented findings. Producers had spoken about conditions that would determine the feasibility of building a gasline in Alaska; producers specified that a pipeline must be high pressure, a minimum of 42 inches, run from the North Slope to tidewater, and able to carry sufficient natural gas for liquefaction and sale to Pacific Rim countries from a deep water port. He stated that all of the issues raised by the producers seemed to support an option that would run along the TAPS corridor as presented by the Alaska Natural Gas Development Authority (ANGDA) and supported by AGIA. He observed that the line proposed under HB 4 would be low volume, low pressure, carry dry gas with no export component, and would be available only to certain communities.

Mr. LeMaster remarked that natural gas liquids would remain on the North Slope and would not be available. He mentioned recent open seasons that had occurred under AGIA in 2012; the results remained confidential. He expounded that HB 4 took the state to another open season, which could take more than two years and provided no guarantee that producers would agree to send product through the line. He stressed that the ASAP line would not carry LNG and would not provide needed revenue from the export of gas to Pacific Rim countries. He stated that the line would not lower energy costs for Southcentral Alaska. He communicated that the line would be sold to private companies for operation and costs would likely increase with little control from state or regulatory agencies. The coalition believed it was a dangerous prospect. He stated that there was a viable project under AGIA for which the state had already paid \$300 million. He noted that significant work had been done by ANGDA over the past 10 years, costing the state over \$11 million as a result of a public vote for a

line to Valdez. He wondered why \$400 million more would be spent on something that had already been done. He emphasized that a large volume line would lower energy costs and would provide revenue to the state from an export component. He reiterated support for a line along the TAPS Richardson Highway to Valdez.

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Mr. LeMaster communicated the coalition's recommendation to use the \$400 million remaining under AGIA for an LNG trucking project for Fairbanks, to retrofit the Nikiski plant for regasification from Cook Inlet, and to approve a large volume gasline to tidewater. He urged the committee to vote against the bill.

Representative Wilson asked if Mr. LeMaster was speaking on behalf of the Fairbanks North Star Borough. Mr. LeMaster replied that he was speaking on behalf of the coalition; the borough was a member of the coalition. Representative Wilson asked for verification that the coalition was speaking on behalf of the borough. She relayed that the borough had testified in support of the bill. Mr. LeMaster answered that the coalition had presented its position on the proposal the prior year to the borough and the City of Fairbanks; subsequently the borough had provided a resolution to the coalition in support of the coalition's position. He noted that the resolution had been provided to the House Resources Committee.

Representative Wilson requested that the coalition provide a copy of the borough resolution specifically in opposition to HB 4.

Co-Chair Stoltze requested that the information be sent to his office for distribution.

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Representative Thompson pointed to resolutions from the Cities of North Pole and Fairbanks expressing support for HB 4.

Mr. LeMaster understood that Fairbanks had serious difficulty with the cost of energy. He stated that in past discussions Fairbanks had been paying \$0.21 per kilowatt hour for electricity; Copper Valley was paying \$0.35 to

\$0.36 per kilowatt hour and the price had recently risen exponentially. He stated that businesses in the area were considering closing due to high costs, which would cause the diminishing population to decline further. He believed the same was true for Valdez, Delta, Tok, and other. He stated that low-cost energy was critical if the region was going to survive as a viable community for commerce. He stated that he would fully support HB 4 if it would reduce energy costs for eastern Alaska.

Co-Chair Stoltze noted that the copies of the resolutions would be reviewed.

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JASON HOKE, REGIONAL ARDOR, COPPER VALLEY DEVELOPMENT ASSOCIATION, COPPER VALLEY (via teleconference), spoke in support of the bill. He believed the state needed to move forward. He opined that HB 4 would provide a solution for some of the energy issues facing Alaskans. He agreed that another pipeline would be nice, but the research and numbers did not indicate the viability of the option. He believed the bill provided for networking with other small gas lines in the future. He reiterated the importance of moving forward. He urged the committee's support for the bill.

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KEN HALL, SELF, FAIRBANKS (via teleconference), voiced support for the bill. He stressed that the status quo was not serving Alaska well. He believed an instate gasline was a tremendous benefit for Interior and Southcentral residents and for Alaska in general. He mentioned the trucking of LNG as a short-term option for high cost energy relief. He discussed that a large diameter gasline would be an expensive and significant undertaking. He pointed out the benefits of gas in Fairbanks including relief of health issues related to coal and wood smoke. He opined that the bill would provide opportunity for the state.

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TODD WEGNER, ASSISTANT CITY MANAGER, VALDEZ (via teleconference), urged the committee to vote no on HB 4. He stated that the ASAP line would not solve the short-term energy crisis in the Interior or Cook Inlet and it would

not solve the ongoing energy crisis facing rural Alaska. He believed the project would not answer the state's long-term energy and fiscal needs. He remarked that the bill would spend \$400 million for another open season; two open seasons had been held previously under the AGIA process. He elaborated that during one of the prior open seasons Asian buyers had expressed interest to ship and purchase twice the amount of gas for a viable project. He opined that the only project addressing the long-term energy and fiscal needs of the state was a maximum volume line to tidewater with an export component. He detailed that a large volume line would provide lower cost energy to all Alaskans due to economy of scale. He stated that interim solutions for Cook Inlet and the Interior would be necessary under any gasline scenario. He asked the committee to spend the \$400 million on a LNG trucking project for the Interior and the renovation of the Nikiski plant in Cook Inlet. He asked the committee to focus on a project that would benefit Alaskans for many generations.

Co-Chair Stoltze stated that the City of Valdez would have the ability to provide further comment during invited testimony at a later date.

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JOHN BITNEY, STATE GOVERNMENT LIAISON, NORTH SLOPE BOROUGH, spoke in support of the legislation. He referenced a letter of support written by the North Slope Borough mayor, dated February 28, 2013 (copy on file). He detailed that the letter addressed developing the state's natural gas resources in order to lower energy costs for Alaskans. He relayed the borough's excitement related to North Slope development. The letter spoke to the importance of working together for a long-term solution. He added that a letter had been written in support of legislation proposing an [LNG] trucking project as well.

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Representative Wilson asked why the North Slope Borough had withdrawn support for an alternative port authority plan. Mr. Bitney was unsure of the reason, but would follow up with the information.

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AT EASE

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RECONVENED

TOM MALONEY, SELF, ANCHORAGE (via teleconference), read testimony for his son Sam Maloney:

I fully support House Bill 4, which has been introduced by my representative Mr. Hawker. As a lifelong Alaskan I have enjoyed a fine education at South High, King Career Center, and I'll graduate from UAA in May with a degree in welding and non-destructive technology. We need new energy for Alaska to lower heating costs particularly in the Interior of Alaska, but also in other locations including Anchorage where I reside. We also need to provide high pay job opportunities to folks like myself who like to learn and even more so, love to earn. Let's get energy for Alaska and get Alaska moving again. Thank you.

Co-Chair Stoltze CLOSED public testimony. He discussed that there would be invited testimony at a subsequent meeting. He spoke to the schedule for the following day.

#

ADJOURNMENT

[2:53:27 PM](#)

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