

HOUSE FINANCE COMMITTEE
March 27, 2013
9:06 a.m.

9:06:49 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:06 a.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

Representative Mike Hawker; Rena Delbridge, Staff,
Representative Mike Hawker; Frank Richards, Manager,
Pipeline Engineering, Alaska Gasline Development
Corporation; Joe Dubler, Vice President and Chief Financial
Officer, Alaska Gasline Development Corporation and
Director of Finance, Alaska Housing Finance Corporation,
Department of Revenue; Speaker Mike Chenault; Daniel R.
Fauske, CEO/Executive Director, Alaska Housing Finance
Corporation.

PRESENT VIA TELECONFERENCE

Ken Vassar, Alaska Gasline Development Corporation,
Anchorage; Daryl Kleppin, Alaska Gasline Development
Corporation, 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."

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Co-Chair Stoltze discussed the meeting's agenda and related that members had submitted questions in advance for HB 4's sponsors, as well as for the staff members of the Alaska Housing Finance Corporation (AHFC) and the Alaska Gasline Development Corporation (AGDC) to address.

REPRESENTATIVE MIKE HAWKER, related that the technical expertise that had been working for 2 years to assemble HB 4 was present at the meeting and available for questions.

Co-Chair Stoltze inquired if the members had the list of pre-submitted questions in their packets.

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RENA DELBRIDGE, STAFF, REPRESENTATIVE MIKE HAWKER, addressed a document containing committee members' pre-submitted questions titled "HB 4 Questions Member's General Questions" (copy on file). She addressed the first question: "What is included in yearly reporting requirements to the legislature?" She pointed out that the list of the requirements under HB 4 was rather long.

Co-Chair Stoltze offered that Ms. Delbridge could summarize the yearly reporting requirements to legislature under HB 4. Ms. Delbridge reported that under the legislation, AGDC needed to annually review its assets and present to the legislature each year a complete accounting of those assets, including the money in the In-State Natural Gas Pipeline Fund; all of this accounting would be audited by an independent outside auditor. Furthermore, within 45 days of adopting any regulations, AGDC had to submit those regulations to the Administrative Regulation Review Committee. Additionally, following an open season, AGDC had 10 days to disclose to the Speaker of the House, the President of the Senate, and to the public the name of prospective shippers on the gas pipeline, including the capacity that they had contracted to ship, as well as the duration of those contracts. For each board meeting, AGDC needed to keep minutes and submit certified copies to the governor and the Legislative Budget and Audit Committee.

Ms. Delbridge continued to address HB 4's reporting requirements to the legislature and noted that AGDC's board

was subject to the open meetings portion of the Administrative Procedures Act, which meant that it needed to meet in public, provide reasonable public notice of board meetings, and provide members of the public the opportunity to be heard, keep minutes, etc.; she thought that while this was not an annual reporting requirement, it played into the context of the question. She stated that if a capital reserve fund was created and used, AGDC must annually certify the sum, if any, required to replenish the capital reserve fund. She stated that AGDC had to submit to the governor an annual report accounting for the efficient discharge of all responsibility assigned by law or directive to the corporation and that the legislature needed to be notified of that report's availability; this was another annual report that must include a financial statement that was audited by an outside auditor. The Regulatory Commission of Alaska (RCA) would be required to include in its annual report a review of any regulatory activities undertaken under the new AS 42.08 chapter regulation for instate gas pipeline contract carriers. She stated that a pipeline that was regulated under AS 42.08 would be required to submit a report every 3 years once pipeline operations had begun that contained updated cost data and a calculation of the 3-year average actual return on equity to the RCA.

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Representative Gara thought that the written questions that members had submitted were supposed to have been questions that the committee did not think that presenters would be able to answer. He had hoped that members would be able to ask additional questions.

Co-Chair Stoltze elaborated that the committee would be able to ask questions and explained that some of the written questions were detailed or complex; he wanted to give the sponsors of HB 4, as well as members of AHFC and AGDC time to prepare, so that they would not have to come back to the committee with a response. He opined that all questions were relevant in the committee, but that submitted written questions were meant to better serve the public process and the transmission of information. He concluded that there would be a very robust engagement involving all the members of the committee.

Ms. Delbridge continued to address the members' pre-submitted questions regarding HB 4 and addressed the second question: "Why are there no commissioners on the Board of AGDC?" She requested that Representative Hawker be able to address the question because it generally detailed the sponsors' desire to separate politics from gasline development.

Co-Chair Stoltze requested that the sponsor delineate which issues were policy issues and which were legal issues in order to aid the committee in its understanding.

Representative Hawker addressed the second question in the document and replied that it was a policy call. He explained that the Finance Committee could have been the board of directors for AGDC, but that he and Speaker Chenault had made a policy call throughout the entire process of the bill's formulation to attempt set up a very functional entity that was as far removed as possible from political influence. He stated that the concept behind the board of directors of the Alaska Permanent Fund was looked at as an entity that was removed political influence. He pointed out that HB 4 had definite and defined requirements that AGDC's board members must have expertise and knowledge in gaslines rather than having the board being composed of commissioners. He observed that the concern regarding there being no commissioners on the board had been raised by others, including the executive branch. He opined that if the executive branch was writing a similar bill it would make the board members all commissioners and that if it was written by the Department of Corrections, they would want a lot of corrections officers on the board; however, he understood the need for balance and was working with Co-Chair Stoltze's staff regarding a solution to the concern.

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Vice-Chair Neuman addressed the first question, particularly regarding the report on the average return on equity and inquired what would be included in the report; he further inquired if it would show who was shipping how much gas and at what value to the state so that the committee would have a report on the state's royalty shares and that "type" of reporting of the individual shippers into the pipeline. Ms. Delbridge replied that the report would go the RCA as part of the its regulation, but that it would be filed in a public way in order to allow the

legislature and the public to have access to it; furthermore, the only return on equity involved would be that of the pipeline itself and not necessarily of people that were selling gas on the North Slope for transport in the pipeline. She stated that there was an expressed provision in the regulatory section that nothing the RCA did would usurp the ability of revenue and natural resources to determine things that related to royalty value of the gas and the reasonable transportation tariff of the gas that was used for calculating production tax purposes.

Vice-Chair Neuman wanted to know who was shipping gas down the pipeline, as well what the volumes, rates, and costs were, so that people would know where the gas was coming from. Ms. Delbridge replied that every contract that the pipeline had with a shipper of gas would be public record once it became a firm transportation service agreement before AGDC started operations; one would be able to see all of the contracts through the filings of the RCA. She noted that there was a provision that commercially sensitive information could be withheld if the RCA agreed that it was commercially sensitive. She noted that the information Vice-Chair Neuman was requesting would certainly be made available.

Vice-Chair Neuman inquired if the information would be submitted in a report to the legislature. Ms. Delbridge replied that the firm transportation shipping agreements would be filed with the RCA through the regulatory process and that there was no provision that it also must be filed with the legislature.

Ms. Delbridge continued to address the members' pre-submitted questions regarding HB 4 and discussed question 3: "How are spur lines off the main pipeline handled?" She noted that this question had been directed particularly at how the 37 mile lateral into Fairbanks would be handled and whether or not it was included as part of AGDC's plan, as well as who would pay for the spur line. She requested that Mr. Richards be able to respond to the question.

FRANK RICHARDS, MANAGER, PIPELINE ENGINEERING, ALASKA GASLINE DEVELOPMENT CORPORATION, related that in the current design that had gone through the environmental impact statement (EIS), there was a lateral that had been developed based on the access to provide gas to Fairbanks; He stated that the lateral would be 35 miles and would be a

12 inch, lower pressure line that would be paid for by the residents of Fairbanks and the North Star Borough; the lateral would equate to about 50 cents to 70 cents on their tariff. He concluded that the cost of future spur lines would be borne by the entities that would be using them. He noted that the CS had the requirement that upon the commencement of construction of an instate gasline, that AGDC analyze the potential natural gaslines connecting to industrial or utility users in other parts of the state; based on this analysis, if it was in the state's best interest, AGDC would proceed forward with the design and financing of additional spur lines to those entities.

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Vice-Chair Neuman asked who decided if the information was in the best interest of the state and further inquired if the information would be something that would be in a report to the legislature. Mr. Richards responded that the best interests finding was conducted by AGDC under the legislation.

Representative Hawker noted that concept of analyzing additional connecting lines around the state was a provision added by the House Resources Committee. He understood that the process involved many views, but that HB 4's sponsors had originally wanted to keep "that" type of analysis and determination in the hands of other agencies, such as the Alaska Energy Authority and other others that were really the analytical agencies; however, the sponsors understood the need to work with colleagues and felt that AGDC could handle the added responsibility of the best interest findings.

Representative Gara observed that there had been a statement in the presentation that HB 4 was primarily for Alaskan use, while the "other project that we are talking about" would be primarily for Asian use; however, both projects would meet the Alaskan demand first and then export the excess. He offered that there was no provision in the other effort to deliver less gas to Alaskans and inquired if that was correct. Ms. Delbridge replied the Alaska Gasline Inducement Act (AGIA) pipeline project did not provide for any spur lines, but provided for connections; the connections would essentially be capped holes in the pipe and would require that someone build the spur lines at some point to connect the gas to Alaskans.

Representative Gara noted that the AGIA pipeline did guarantee in-state gas use and pointed out that the tariff rates under that pipeline were supposed to be distance sensitive; in other words, the shorter the distance, the shorter the tariff. Ms. Delbridge responded that AGIA guaranteed the offtake points only; however, the gas and pipeline that connected Alaskans was something that was left undetermined in that project and was not part of the duty of the AGIA licensee. She believed that distance sensitive rates would be used with the AGIA project, but offered that AGDC was also proposing to use distance sensitive rates.

Ms. Delbridge continued to address the members' pre-submitted questions regarding HB 4 and spoke to question 4: "How is royalty gas handled under the current AGDC legislation?" She pointed that currently, HB 4 did not address Alaska's royalty gas, except to allow that AGDC could create a subsidiary corporation that would market natural gas; this included natural gas, but did not have to.

Co-Chair Stoltze asked about an earlier iteration. Ms. Delbridge replied that there was an earlier iteration that allowed an AGDC subsidiary to pledge royalty gas to meet certain commitments contingent upon the commissioner of the Department of Natural Resources (DNR) approval; this had been removed and the current procedure for managing royalty gas was in AS 38.05.183, which laid out the existing procedures for how the DNR commissioner and the state royalty board would address royalty sales of gas or oil.

Co-Chair Stoltze noted that some of the questions were asked before people had the bill in their possession.

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Vice-Chair Neuman opined that the state having more control over its royalty share would be an important provision in HB 4. He wanted to see military bases have an opportunity to receive part of the state's royalty gas in order to reduce costs and thought that there was no comparison between the small value to the General Fund of the 12.5 percent to \$2 gas and the value of having the state's military bases. He wanted to see the state offer its

royalty share to the military free of charge for heating and electrical generation.

Co-Chair Stoltze understood that any discussion of the royalty would be handled in other legislation.

Vice-Chair Neuman thought that Ms. Delbridge had stated that how the state would handle its royalty had been in the bill at one time, but had been removed; he inquired if that was correct. Ms. Delbridge responded that the bill had never directed how the state should handle its royalty gas and how it should be manage it, but only provided that it could be shipped in an AGDC pipeline. She noted that there had been some concern on the part of some of the state attorneys that the language was not drawing a far enough line in terms of not trying to usurp the DNR commissioner's and the state royalty board's ability to manage the state's royalty gas as they saw fit per statute; this certainly could include, if someone were applying or requesting, some kind of a finding that took into account those other values.

Vice-Chair Neuman clarified that Alaska, through DNR and the royalty board, would have the opportunity to look at its royalty share and provide that it could be used as the state desired. Ms. Delbridge responded in the affirmative and related that AS 38.05.183 laid out precisely how "they" would go about that.

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Ms. Delbridge continued to respond to the members' pre-submitted questions regarding HB 4 and addressed question 5: "Do the legislative findings in Section 1 apply to Regulatory Commission of Alaska findings?" She pointed out that in Section 1 of the bill, it specified that an AGDC project was in the best interest of the state and was required for the public convenience and necessity. She noted that in the RCA section, a pipeline was required to obtain a certificate of public convenience and necessity (CPCN), which was a building permit from the RCA. She pointed out that part of what the RCA looked at when deciding whether to issue a CPCN was whether or not the project was in the public convenience and necessity. She stated that the intent was that the legislative finding in Section 1 of the bill would reinforce the finding that the state was making on behalf of the RCA that this project was

necessary for state's interest and in the public convenience and necessity. She pointed out that the sense was that it would be very duplicative for the RCA to go and make "that finding" again if legislature had already essentially made the determination by passing HB 4 and charging a state entity with this mission.

Ms. Delbridge continued to address members' pre-submitted questions regarding HB 4 and discussed question 6: "Page 4, lines 16-18 states that "the corporation cannot be terminated as long as it has bonds, notes or other obligations outstanding" what happens if the corporation goes into the red and obligations cannot be honored?" She relayed that the question was what happened in a worst-case scenario if AGDC goes into the red and obligations cannot be honored. She offered that Mr. Richards was prepared to answer the question.

Mr. Richards deferred the question to Mr. Dubler.

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JOE DUBLER, VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, ALASKA GASLINE DEVELOPMENT CORPORATION AND DIRECTOR OF FINANCE, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE, pointed out that question involved bankruptcy laws and what happened when entities were "underwater". He believed that Mr. Vassar, who was AGDC's general counsel, would be better suited to answer the question.

KEN VASSAR, ALASKA GASLINE DEVELOPMENT CORPORATION, ANCHORAGE (via teleconference), responded that the primary intent of the provision was to protect the bond holders and explained that when AGDC issued bonds, the holders were purchasing them with the belief that AGDC would be around long enough to be able to repay them. The provision was an added benefit to the bond holders and helped AGDC market the bonds. He expounded that it helped AGDC market and sell bonds if it could say that the legislation said that AGDC would be around for as long as it had bonds outstanding; however, AGDC going in the red and not being able to pay its debts represented a separate question that related to the kind of bonds that AGDC planned to issue, which were revenue bonds that were supported by the revenues that the pipeline would generate. He explained that the bonds would be marketed as revenue bonds and the purchasers would know that the only source of revenue to back the bonds from and

get paid from were the revenues of the project; if, despite best forecasts, it turned out that these revenues were insufficient, the bond holders simply did not get paid. He concluded that unpaid bondholders would pursue what remedies they could, but that it would be clear that the only source of payment available to them were the revenues that AGDC had pledged.

Co-Chair Stoltze interjected that the administration would address the issue at a later hearing because they were involved in the state's bonds.

Representative Gara asked if the state had the moral obligation to pay the bonds off if the project was unable to. He noted that the state being unable to pay off the bonds would affect its credit rating. Ms. Delbridge responded that the sponsors of HB 4 understood that the ability of AGDC to create a capital reserve fund and have that backed by the moral obligation of the state was of great concern to some committee members and others in the Capitol Building; furthermore, through discussions with AGDC and Co-Chair Stoltze's staff, the sponsors were prepared to offer an amendment to the bill that would essentially leave the ability and the intent to do a capital reserve fund that was backed by state moral-obligation debt in the bill, but make it contingent on future legislative action that expressively gave the authorization to AGDC to create that reserve fund backed by moral obligation debt. She stated that the amendment would allow AGDC to give the legislature hard information that explained what kind of shippers and what kind of credit worthiness that it was actually trying to backstop with that capital reserve fund, if one was required, in order to give the legislature information that it needed to decide whether to authorize the fund, including the moral obligation piece and whether there should be a limit on that.

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Representative Gara asked Mr. Dubler if it would risk the state's credit rating if the state put in its moral obligation and neither the pipeline nor the state was able to meet the bond requirements. Mr. Dubler responded in the affirmative and explained that the way a moral obligation worked was through the creation of a reserve fund that was similar to the one that was in HB 4. He explained that the

bonds were 30-year bonds and that to the extent that the project drew on that reserve fund, AGDC would be required to request of the state that the fund be recapitalized and brought back up to the minimum amount; furthermore, the state failing to do this for any reason would be a big problem regarding its credit rating. He relayed that he had spoken a lot with DOR regarding the impact of just having the bonds as a moral obligation to the state. He pointed out that the debt portion of "this financing at about \$8 billion, at about a quarter of it would be \$2 billion with a moral obligation of the state"; "even that" could impact the state's credit rating. He stated that AGDC did not currently anticipate needing the capital reserve fund, but that it was offered as a tool. He pointed out that the more tools one had availability when marketing, the better chance there was of a successful financing.

Representative Gara recalled hearing the bill being presented at the Anchorage Legislative Information Office in December and offered that one of the sponsors had stated that HB 4's project should be viewed as a public works project and something that would require a state subsidy; he inquired if this was part of the current plan.

Representative Hawker noted that he took exception to having statements made about the sponsors' intent that were inaccurate.

Representative Gara asserted that there had been a statement made in December that the bill's project should be treated as a public-works project.

Representative Hawker observed that "should" inferred a very clear statement of intent. He relayed that it had been discussed that it was one way for the state to look at this, should it be one of the courses action chosen; however, the sponsors would much rather see a project move forward on its economic merits in the private sector and be facilitated only by an economic climate and an initial investment of funds by the state that was necessary to get a project going. He offered that it was possible that through separate legislative action at a later date, the state might choose to view HB 4's project or even the connecting pipelines in other projects as something that was an assistance to the state and that built out infrastructure much like roads and very large public-works projects. He believed that someone had misspoken if it was

said that HB 4's project "should" be a public-works project.

Representative Gara inquired if there was any plan to seek state assistance to make HB 4's project pencil out. Mr. Dubler responded that the tariffs that AGDC had produced to-date did not require a state subsidy beyond the \$400 million to get the project to an open season. He explained that the open season would take AGDC through another gate and prove that the project was feasible; as this point, a 3rd party builder/owner or builder/owner/operator would come onboard and build and operate the pipeline. He concluded that AGDC did not anticipate any state contribution beyond the initial \$400 that was being requested in the bill.

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Representative Costello asked Mr. Vassar about the language on page 4, line 16 of the bill, where it was stated that AGDC had a legal existence independent and separate from the state; however, on Page 2, lines 24 and 25, it stated that AGDC shall be treated for all purposes as the transfer of a corporation within the state and not as the creation of a new entity by the state. She thought that the 2 sections of the bill might be contradictory and requested an explanation. Mr. Vassar replied that the first language that Representative Costello was referencing was on page 10 and was a common type of language that was used for public corporations of the state; these corporations were given a separate legal existence because it was the reason that they were created in the first place. He expounded that public corporations of the state were created to help generally insulate the state from the risks and liabilities that the corporations may be exposed to.

Mr. Vassar addressed the second language that Representative Costello had referenced and thought that although she raised a good point, that section was ok the way it was because unlike other corporations of the state, AGDC was a subsidiary of a public corporation of the state; the corporation currently existed, currently had a legal existence of its own, and was a separate entity of its own. He further explained that the idea behind the language on page 2 of the bill was to ensure that if AGDC moved from a subsidiary of AHFC to become a public corporation of its own, that the transition was done in a way that did not

interrupt the current activities and contractual commitments that AGDC had already entered into; furthermore, the purpose of the language was to make it clear that a new entity was not being created, but that there was a transfer of title from AHFC to the state itself

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Ms. Delbridge addressed the members' pre-submitted questions regarding HB 4 and believed that Mr. Dubler answered question 7: "Could the state's bond rate be affected by AGDC's capital reserve fund obligations?"

Ms. Delbridge discussed the members' pre-submitted questions regarding HB 4 and spoke to question 8: "There is a 30-day timeline with no apparent extensions for the recourse tariff with the RCA, which calls for meaningful review of rates, terms, conditions, and calls for public testimony. Is this a realistic timeline to evaluate what maybe extensive data from shippers and does there need to be a possible postponement period, possibly only for good cause?" She stated that the bill provided for a 30-day RCA process for the approval for the initial recourse tariff, which looked at the capital structure, the depreciable life, and the return on equity that was based on estimates; this was well in advance of construction. She recalled that the bill's sponsors had presented to the RCA on March 15 in Anchorage to review what was in HB 4; the RCA had been clear that the 30-day period was not sufficient enough time to conduct the level of review that was requested. She explained that the sponsors were prepared to increase the level of RCA review and pointed out that every time an additional time frame was added that was a potential and not given up front, it delayed all of the commercial processes, open seasons, negotiations, and progress on a pipeline that were scheduled after that set statutory window of review that was allowed by the RCA; extending the 30-day review period to "for example" 90 days, AGDC's progress would be delayed for another 2 months. She expounded that if there was an additional delay that kicked in after that 90 day window, AGDC would not know that until 90 days was over; as a result, AGDC's open season, commercial agreements, and progress could be delayed. She offered that for every year the project was delayed, it "essentially" added another \$200 million in inflation costs at 2.5 percent. She concluded that giving an additional 6-month window to the RCA to review contracts, if it decided

to, would come at a price of roughly \$100 million and would delay the gas to Alaskans for another 6 months.

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Representative Hawker stated that question 8 was a policy question that had been considered by HB 4's sponsors, who saw an important role for the RCA in the reviews because they were necessary for the public good and the protection of the consumer. He pointed out that the legislature had created the RCA in order to have an oversight body for such things. He reiterated that it was a policy approach and that the sponsors wanted reasonable and appropriate timelines on the RCA. He recalled passing statutory requirements that specified that the RCA had to complete activity under certain timeframes. He reiterated that the sponsors wanted reasonable and appropriate timeframes, but that they did not want excessive timeframes. He offered that "when you were a hammer, everything looked like a nail," and opined that if he were a regulatory agency, he would prefer unlimited timelines; however, if the legislature wanted to get a pipeline project going, which he submitted it wanted to see progress on, it probably did not want to allow the possibility for unlimited time to delay a project. He pointed out that the bill's sponsors were working with Co-Chair Stoltze's staff in order to reach an accommodation regarding the review period that worked for everyone.

Vice-Chair Neuman asked about the \$2 billion moral obligation of the state and wondered where the figure came from. He thought maybe the \$2 billion was derived from the 70 percent to 30 percent debt to equity ratio and inquired if it represented an equity portion that the state needed to come up with. Mr. Dubler replied that the \$2 billion was a made up number and that if "we were to do \$2 billion, we probably would not do the entire 6." He explained that the current ratio was 75 percent to 25 percent debt to equity and that there would be \$6 billion in debt; the entire debt service would probably not need to be backed by a moral obligation, but possibly the last ten years would. He explained that the longer bonds would have the biggest impact and that as a result, the entire amount would not be taken. He offered that the current state moral obligation balance was a little over \$1 billion and that \$2 billion to \$6 billion would represent a lot more, which was why he had stated that it did have the potential to impact the state's

credit rating. He stated that moral obligations showed up differently than general obligation debt on the rating agencies' analyses and were depicted as a credit negative.

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Vice-Chair Neuman asked what the state's responsibility would be for the equity portion. He additionally asked what the equity portion was and where it would come from. Mr. Dubler responded that the equity portion would come from the equity investors, which would be either the producers that were shipping the gas or a third party build/owner/operator. He explained the Alaska would own 1/8 of the gas in the form of royalty and that the state could have the potential of putting up 1/8 of the equity, which came out to be about \$250 million; this would be an investment, not a subsidy and was currently calculated to have a return of 11 percent, which he thought beat most "of what were are getting at least in the debt markets."

Representative Gara discussed AGIA and noted that it had required a debt to equity ratio of 70 percent to 30 percent; the project had since moved to 80 percent debt. He explained that the more debt a project had, the lower the RCA allowed the tariff to be. He inquired if AGDC had the same requirement with its project to maximize the amount of debt by the project owner in order to keep the tariff low for consumers. Mr. Dubler did not believe that AGDC currently had that requirement. He explained that the original goal had been a 70 percent to 30 percent debt to equity ratio, which was in line with the AGIA project; however, AGDC felt that a 75 percent to 25 percent ratio provided a better cost of funds because there would be "less capital at 11 percent and more at the lower debt number." He stated that going to an 80 percent to 20 percent split would depend on what happened during the open season when AGDC attempted to sell the project; if an investor only wanted to put in 20 percent, AGDC could probably do the 80 percent to 20 percent debt to equity ratio. He furthered that if an investor wanted to put 30 percent in, there would be a negotiation.

Representative Gara asked about the 30-day timeline for the RCA to set the tariff. He noted that the RCA stated that the 30-day period was way too short and was glad that people were taking a look at that. He explained that there was a way that a company could run out the clock by not

giving the RCA the information that it needed and that if a company held out for 90 days and withheld the information, the RCA would not even be able to make the decision in 90 days. He hoped that people would consider a provision that would not allow a company that the RCA needed information from to run out the clock and pointed out that this had been put in prior legislation.

Ms. Delbridge addressed Representative Gara's comments and stated that there were a number of provisions already in the RCA section of HB 4 that allowed the RCA to extend any review period where delay was caused by a failure of an applicant to provide additional information as requested by the duration of that delay; furthermore, she would make sure that this was in fact part of the recourse-tariff approval process.

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Representative Hawker pointed out that the RCA would be "reviewing" tariffs and would not be "setting" tariffs.

Ms. Delbridge continued to speak to the members' pre-submitted questions regarding HB 4 and discussed question 9: "Confidentiality agreements appear to be open-ended. Is this true? What is needed to be included in confidentiality agreements?" She pointed out that the ability of AGDC to enter into a confidentiality agreement with a private sector entity was not exactly open ended in the legislation, but that the terms of the that agreement would be determined by the agreement itself; it was unlikely that those were things that would be disclosed in the future because they were confidential in order to provide for the protection of peoples' commercial and private sector interests. She offered that Mr. Kleppin would be able to discuss what would need to be included within confidentiality agreements and opined that question 9 was asking what kinds of things confidentiality agreements would be needed for.

Co-Chair Stoltze stated that committee would discuss the concerns and benefits of confidentiality agreements further with the administration and the Department of Law.

Representative Gara had a confidentiality question regarding a different provision in the bill. He pointed out that under the legislation, AGDC's board was allowed to

issue bonds and was only required to give 24 hours of public notice; furthermore, it was unclear if the public would be able to participate at all under the provision. He offered that it seemed like the board could also "do this" electronically and e-mail with each other through a medium where the public did not get to see anything. He inquired if he was reading the provision correctly that there was only 24 hours public notice and that the board members could discuss the issue privately via e-mail with no public participation. Ms. Delbridge clarified that AGDC had to have open board meetings regardless and could not hold private meetings whether it was doing regular business or conducting a bond issuance. She explained that AGDC was subject to the open meetings portion of the Administrative Procedures Act for any board meeting and would have to provide reasonable notice and comply with all the other things that anyone else did; however, there was an extra provision that specified that outside of this, AGDC could provide 24-hour notice for a meeting in which bonds needed to be issued. She pointed out that AHFC was allowed to provide 24-hour notice for a meeting in which bonds needed to be issued, but believed that the corporation had never exercised that ability; however, there was a very important reason that the ability was there. She asked if Mr. Dubler would like to speak to the point.

[9:58:10 AM](#)

Mr. Dubler explained the provision that gave AGDC the ability to give a 24-hour public notice for a meeting in which bonds needed to be issued. He reported that the provision was there because it allowed a quick board meeting and approval if a corporation was in the middle of a bond issuance or was planning a bond issuance and events happened in the market that required getting to the market quickly because it might not be there in a "week or two weeks, or however long the notice needs to be." He related that the important consideration in the context of AGDC was that the bonds to be issued would not be the debt of the state, but would be the debt of the project. He understood the concern of having public notice, as well as access to the board and its information. He pointed out that AGDC was still subject to the online public system and would still be required to publish the notice 24 hours in advance; however, in order to react to declining or decaying markets, AGDC needed to have the ability to operate quickly if it was necessary.

Ms. Delbridge added that it was very clear on page 5 of the bill that AGDC's board may meet and transact business by electronic media "if" there had been public notice of the times and locations where the meeting would be held by electronic media, "if" participants and members could hear and have the same right to participate as if it were conducted in person, and "if" copies of all the relevant materials were also provided to the public. She concluded that a meeting via electronic media would not be hidden from the public.

Representative Gara inquired if "electronic media" in the bill was referencing a teleconference that the public would be able to see and did not include email that the public would not be able to see. Ms. Delbridge believed that regardless of the actual electronic media used, the public had to be provided certain things. She quoted from page 5 of the bill as follows:

"if copies of pertinent reference materials, statute, regulations, and audio visual material are reasonably available to participants and to the public..."

"if participants and members of the public in attendance can hear and have the same right to participate in the meeting as if the meeting were conducted in person..."

Ms. Delbridge continued to address Representative Gara's question and related that if AGDC was transacting business, the public needed to be involved in that.

[10:00:18 AM](#)

Representative Kawasaki referenced subsection (e) on page 5 of the bill and noted that items 2, 3, and 4 also stated that the sale and disposition of an asset, the ownership structure of the pipeline, and an action committing the corporation to an additional natural gas pipeline could also be voted upon. He understood the need to get to markets quickly, but pointed out that there were other things that could be done "under that." Ms. Delbridge responded that the provisions that Representative Kawasaki had referenced did not pertain to the 24 hour notice to issue bonds, but required a higher threshold of members of the board to be present for substantive votes that had a

lot of bearing and meaning to Alaskans. She explained that the higher threshold would be used for things like issuing and selling bonds, managing those assets, and deciding on ownership structures, and related that there was no 24 hour notice required for those votes because they were regular board business; furthermore, the sponsors were simply saying in the bill that those types of decisions not only required a majority of the quorum, but also that a majority of the board must be present.

Mr. Dubler noted that the reason the bill was allowing telephonic boards meetings was because in Alaska, it was sometimes difficult to get 7 or 5 people, or how every many would be on the board, in the same room and that if AGDC was negotiating a sale, purchase, or something that needed a majority of the boards, it might not be able to get a majority of the board in the same room. He expounded that AGDC wanted to have the ability to have a member on the phone in case it was needed.

Ms. Delbridge discussed the members' pre-submitted questions regarding HB 4 and addressed question 10: "If the state's moral obligation did not come into play, how would that affect AGDC's credit rating?" She discussed a prior question and asked if it had been sufficiently answered related to moral obligation.

Co-Chair Stoltze thought that the question was asking what the upside benefit of the moral obligation was, but that he was unsure.

Mr. Dubler noted that the answer depended in the structure that AGDC set up. He relayed that a financing package that AGDC would put forward would be based on the rating of its counter parties. He offered that Exxon Mobile, British Petroleum (BP), and ConocoPhillips were very highly rated entities and that if those companies were AGDC's counterparties in the firm transportation shipping agreement, he did not believe that the moral obligation would have a very large impact on the financing and would probably not be used. He stated that if the majors opted not to be shippers and instead the counterparties were companies like the Enstar Natural Gas Company or other small utilities in the state that would have relatively low ratings, AGDC could get a "fairly decent advantage"; however, the advantage would be "probably not as big as the trucking project" of the Alaska Industrial Development and

Export Authority (AIDEA), which he believed was "200 or 250 basis points." He thought that AIDEA was looking at an unrated project, while AGDC was planning on doing its project on a rated basis. He explained that "what you get" was the difference between what your project would be rated without the credit enhancement versus the rating you get with the credit enhancement, which could be anywhere from 10 basis points to 100 or 150 basis points; the exact amount would be hard to determine without looking at the structure again. He explained that a basis point was a percent of a percent and was .01 percent.

Representative Hawker relayed that the cost of financing ultimately became a cost to the consumer and that in crafting the bill, the policy call by the sponsors was to allow AGDC to avail itself of the moral obligation of the state if it was necessary and appropriate to execute a most efficient financing transaction that resulted in the least possible cost to consumers.

[10:05:15 AM](#)

Representative Gara stated that he was hearing 2 things. He referred to testimony that the moral obligation of the state might not be needed, but observed that if it was needed, it put the state on the hook. He inquired why there was not a provision in the bill that stated that if AGDC decided to use the moral obligation of the state, it had to seek the legislature's or the governor's approval.

Ms. Delbridge responded that based on committee's concerns, the sponsors were prepared to add an amendment to HB 4 that left in the structure of how a capital reserve fund and moral obligation would work, but required as a preface that by law, AGDC must get come back and get express approval from the legislature to actually use the ability. She explained that if the structure was left in the bill, it was clear that this was the intent of the legislature, but only if and not until AGDC could come with information regarding who it was hoping to back stop, whether it was in fact necessary, and whether it benefited the state. She reiterated that the sponsors were happy to amend the bill to address the issue.

Ms. Delbridge continued to speak to the members' pre-submitted questions regarding HB 4 and addressed question 11: Could a cap be set on the state's moral obligation

capacity?" She believed that the question was referencing a cap per project or per authorization to do so and responded that a cap could be set. She stated that the specific circumstances regarding how much of a capital reserve fund backed by how much of moral obligation debt was important when determining "these things." She offered that Mr. Dubler or DOR would have suggestions regarding how something like this would be capped.

Co-Chair Stoltze asked for a brief commentary on the advocacy of question 11, as well as some of its potential issues. Mr. Dubler replied that a cap could be put on the moral obligation capacity on a transaction like this; "they were typically no more than 10 percent of the debt that was issued, which in this case would be approximately \$6 billion"; 10 percent of \$6 billion was \$600 million, which would be the amount of the reserve fund. He explained that "they" generally had a 1 year maximum debt service. He related that he had done a quick calculation and that a 30-year bond at 7 percent would yield just under \$500 million per year in debt service. He expounded that if the potential reserve fund was capped at \$500 million, that would be the maximum that would need to be put in the reserve fund; furthermore, AGDC had not discussed the issue of a possible cap much because it would have come back when it had better numbers, a better idea what the market and the project rating would be, and had a much better package to bring back to the legislature when it requested approval for that moral obligation.

[10:08:26 AM](#)

Ms. Delbridge continued to discuss the members' pre-submitted questions regarding HB 4 and spoke to question 12: On page 8, lines 18-19, what type of hearings do you envision AGDC conducting?" She pointed out that AGDC could conduct a variety of hearings and that it was prepared to give examples. She stated that it was AGDC's duty once construction had been started on a mainline to start analyzing additional pipeline opportunities that benefited Alaskans and opined that this might represent an instance in which AGDC would like to hold hearings in order to talk to communities and other entities to find out where those opportunities really were. She pointed out that AGDC may call a hearing and try to gather information regarding different explorers' plans and entry points into oil and

gas basins in order to allow for future planning on additional pipelines.

10:09:38 AM

Ms. Delbridge continued to speak to the members' pre-submitted questions regarding HB 4 and addressed the "bonding questions." She spoke to the 2 following bonding questions:

"If the bond mechanism relies on the credit worthiness of the shippers, can the shippers build the pipe line with their own resources, and keep the moral obligation of the state out of the equation?"

"If there was no state moral obligation necessary what will that do to the potential bond interest rates? Caveat: If there was a draw on the Capital Reserve Fund (if the shippers fail to meet their financial obligations) there is the danger of the moral obligation pledge attaching to all moral obligations of the state and automatically drag down our bond rating."

Mr. Dubler addressed the first question and stated that if a shipper wanted to build a pipeline, they could do so with their own equity and go out to the capital markets to borrow money; furthermore, they could have done that 10 or 20 years ago, but it had not happened yet.

Co-Chair Stoltze wondered if Representative Hawker would have met his goal if HB 4 was the catalyst for a shipper building the pipeline. Representative Hawker replied in the affirmative and explained that the desired outcome of HB 4 was that the private sector would be able to step up under the framework established by the bill and take a project to fruition on its own. He reminded the committee that the legislation was not about building 1 pipeline, but that it represented a suite of tools for the State of Alaska to facilitate a project going forward; furthermore, the bill would give the state a strong seat at the table with any project that went forward regardless if it was an AGIA or AGDC pipeline, or even another pipeline project.

Mr. Dubler continued to discuss members' pre-submitted questions regarding HB 4 and addressed the following bond question:

"If there was no state moral obligation necessary what will that do to the potential bond interest rates? Caveat: If there was a draw on the Capital Reserve Fund (if the shippers fail to meet their financial obligations) there is the danger of the moral obligation pledge attaching to all moral obligations of the state and automatically drag down our bond rating."

Mr. Dubler addressed the question and related that the cost of the financing could increase significantly without the moral obligation; his standpoint would be that if the financing was increased significantly to the point that tariffs were "out of the money," then the moral obligation was necessary in order to get the project completed and get gas to Alaskans. He explained that if it was necessary, AGDC would approach the legislature regarding using the capital reserve fund.

Representative Gara noted that the legislature would be appropriating about \$360 million to the project and inquired if some of that money would be used for the capital reserve fund. He further inquired where the money for the capital reserve fund would come from and how much it was. Mr. Dubler replied that AGDC was currently not contemplating a capital reserve fund for the project, but that it did have the option to come back and request one. He relayed that if there was a capital reserve fund utilized, there were several different sources that could be used. He offered that the appropriation was in fact \$330 million, would not go into a capital reserve fund, and was only for the project's pre-sanction costs; the capital reserve fund would come into play when bonds were sold because it was only made available to satisfy debt obligations of the corporation. He stated that a capital reserve fund was typically borrowed and would come out of the bond proceeds; if not, the state could have a general fund appropriation to the reserve fund if it so desired, or the corporation could borrow the funds.

[10:13:52 AM](#)

Representative Hawker clarified for the record that the request in the legislation was not for \$360 million, but was for \$330 million in aggregate, which included the \$200 million that AHFC already had.

Ms. Delbridge continued to discuss members' pre-submitted questions regarding HB 4 addressed "HB 4 General Questions" She spoke to the first talking point:

- Confidentiality Provisions (unlike all other state semi-autonomous agencies);
 - Insufficient Executive and Legislative branch checks and balances

Ms. Delbridge related that the HB 4 general questions were really points and not specific questions. She explained that many of the state's public corporations had the ability to keep some or a lot of their information confidential, particularly when it came to things like trade secrets and proprietary technical information and pointed out that the Aerospace Corporation could keep proprietary technical information confidential; additionally, AIDEA could keep financial records confidential that were related to applicants for its programs if they were not public previously. She pointed out that the Alaska Permanent Fund also had some confidentiality provisions if information would disclose the business affairs of private enterprise or investors and that the Alaska Railroad also had some provisions for confidentiality; however, the likelihood of AGDC being unique from these and needing to bring along private sector partners in ownership and operating agreements necessitated a different level of confidentiality provision, in particular the ability to make the confidentiality agreements in order to talk freely with private sector entities in negotiating commercial deals. She addressed the sub-bullet point and offered that by listing some of the reporting requirements, the presenters had articulated what a lot of those checks and balances do in fact look like. She stated that there was a concern in legislature regarding AGDC's full exemption in the Executive Budget Act and related that AGDC believed that it could operate well with a partial exemption that was similar to that of other state corporations; as a result, AGDC's operating money would be subject to the Executive Budget Act and then the corporation would have the flexibility to deal with its bond related finances outside of that process.

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Ms. Delbridge continued to discuss members' pre-submitted questions regarding HB 4 and addressed the the HB 4 general questions. She spoke to the second talking point:

- RCA Regulatory related:
 - No common carriage in-state ((the contract carriage requires only a 30-day review; need up to 180 days for meaningful public comment and review of the recourse tariff before the open season; public comment includes the shippers))
 - After Open Season the Legislature needs to review and approve.

Ms. Delbridge noted that the 30-day review and the sponsors' desire to be responsive to the RCA's need for a longer timeframe for meaningful review had already been voiced. She pointed out that there was not a common carriage provision for "instate in the contract carrier regulations." She was unsure what aspects of the talking point the committee wanted her to address.

Representative Gara noted that under the AGIA statutes, HB 4's project would be small pipeline and would deliver less than 500 million cubic feet (Mcf) per day; he agreed that a contract carrier made sense because it was a small amount of gas. He explained that a common carrier meant that if there was an expansion, everyone who was shipping gas in the pipeline would have to share the cost of the expansion, which facilitated new producers being able to get into the line and on the North Slope. He stated that he was happy with the AGIA provision that stated that an expansion was great for the state and made "everyone pay to get in"; whereas, with a contract carrier, new comers had to pay the full cost of the expansion and would not be able to make it in.

Representative Gara inquired what would happen if AGIA was evaporated, HB 4 became "the bill," and Alaska was able to put together a huge pipeline, which was in the state's interest; he further inquired if HB 4's pipeline would still be a contract carrier at this point and expressed that he would have some concern if that was the case. Ms. Delbridge responded that the provisions in AGIA related to a Lower-48 line that was regulated by the Federal Regularly Commission (FERC) and related that the state did not

"necessarily" have a regulatory mechanism in place to deal with that; the assumption was that "that" does in fact work through FERC, which had a host of special conditions for an Alaska gas pipeline on the assumption that it would be a massive diameter line that went through Canada and served the Lower-48 and potentially other markets. She pointed out that while the bill provided for contract carriage, it required expansions when presented with commercially reasonable opportunities, so that future explorers that found gas and wanted access to the pipeline would be able to do so; if the the explorers had enough gas and were willing to sign a contract to ship it to warrant the expansion, the pipeline must do that. She explained that the point that was trying to be made was that if you had long-term contracts governing your other shipment on those pipelines, "those" people had put up the initial investment to actually make the pipeline happen; to penalize these investors by adding to their rates after they had shouldered that initial investment was not something that the sponsors felt comfortable with.

Ms. Delbridge continued to respond to Representative Gara's question and noted that the entities that would be paying for the expansions would be the ones that would be using that space, just as ones paying for the initial pipe would be the ones using that space. She pointed out that there was also the possibility of rolled-in rates in HB 4, meaning that they were not precluded, if that is what the contracts allowed for. If the "big line" became the project that was moved forward and the state wanted it to be regulated under "this chapter," it was good to note that FERC had not issued anything definitive on "this"; however, there was a good chance that if only a small portion of the gas from a pipeline that was going to the North Slope to export at tidewater was going to instate-use, FERC may assert jurisdiction over the regulation of the pipeline.

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Representative Gara stated that if the bill became the mechanism to build a big pipeline and if AGIA went by the wayside, the bill would need to be amended because it currently had 500 Mcf per day limitation. Ms. Delbridge noted that the limitation was only in effect as long as there was a licensee under AGIA that was in compliance with its license and that the state was assisting through those payments as per AGIA. She concluded that there would be no

need to amend HB 4 later to lift the limitation if AGIA was somehow no longer there. She pointed out that while AGDC provided the opportunity for the projects to come together, the regulatory framework was not "necessarily" where the projects would come together; furthermore the state was unable to tell the federal government that they could or could not regulate something, but would have to work within the framework to some degree.

Ms. Delbridge continued to discuss members' pre-submitted questions regarding HB 4 and pointed to the HB 4 general questions. She spoke to the third talking point:

- Cost estimate not transparent
 - Base estimate currently ~ \$7.7 billion; the cost for larger diameter pipelines have been estimated at under 10.0 billion. Example -Alyeska 2013 cost study reported direct costs of replacing TAPS (plus owner, management and engineering costs) less VMT at:
 - o 30" pipe with 440,000 (650,000 w/DRA) bbl/d capacity ~ \$8.9 billion
 - o 48" pipe with 750,000 (1,000,000 w/DRA) bbl/d capacity ~\$9.7 billion

Ms. Delbridge addressed the first sub-bullet point and stated that she had been unable to locate the Alyeska 2013 cost study; furthermore, she had contacted the Alyeska Pipeline Service Company, which was not aware of a 2013 cost study. She relayed that she had been able to find the Alyeska 2013 study information directly referenced in a slide prepared for another committee, but pointed out that she had no way of knowing what this cost study said in relation to the "figures that we were given." She believed that the replacement costs for the Trans-Alaska Pipeline System (TAPS) involved starting with something that had already been largely done and that one would not be doing a construction project from the start and would see differences. Furthermore, TAPS was an oil pipeline that was largely above ground, while HB 4's line would be a gas line that was largely below ground; there were many different engineering, safety, and other concerns related to those and she was unsure if the comparisons were fair or relevant. She added that AGDC would be able to talk about

the transparency that actually was in place for the cost estimates that it had put forward on the pipeline.

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Mr. Richards addressed the concern relating to cost estimate transparency. He stated that the \$7.7 billion, which AGDC had just updated at the end of 2012, was based on the design premise that it had gone forward with, which was based on the level of engineering that AGDC had currently advanced; the pipeline, as well as the gas treatment and compression station on the North Slope were the major components. He relayed that based on AGDC's current level of engineering, it felt confident that the \$7.7 billion estimate was accurate with a plus or minus of 30 percent.

Representative Gara stated that he was unable to parse through the numbers that AGDC had come up with, but noted that the original cost study for a 500 Mcf or smaller pipeline from 4 or 5 years prior was that it would deliver gas at about \$21 per Mcf; however, the prior year, a study had been presented that showed those costs at about \$14, \$12, or \$10 per Mcf and the current year's study showed a lower cost. Mr. Richard replied that under HB 369 ["HB 369" was made in reference to a bill from a previous legislature.], AHFC was to provide a project plan to the legislature. In the 2011 project plan, the cost estimate for the 24 inch, high-pressure rich gas case had come in at about \$7.5 billion and would deliver gas at approximately \$9.62 to the Cook Inlet area; however, the update that AGDC had provided to the instate gas caucus at the end of 2012 had a design-premise change to a lean gas case with a cost estimate of \$7.7 billion. He pointed out that in the 2012 update, the number of facilities had been reduced and related that compressor stations, straddle plants that would have stripped out the natural gas liquids out of the line, and other associated facilities had been removed from the plan. He stated that AGDC had provided the current cost estimates based on the current level of detail and reported that the major facilities were: the gas treatment facilities on the North Slope and the compressor station; he noted that the pipeline now only planned to use one compressor station to push the gas from the North Slope to the Cook Inlet basin and Fairbanks. He offered to go into the cost estimates in more detail if the committee so desired.

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Representative Gara observed that there was an earlier cost estimate, but that it did not need to be addressed.

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Ms. Delbridge continued to discuss members' pre-submitted questions regarding HB 4 and jumped to the final question on the bottom of the page:

- o Will the state's work to date on permitting (right of way, etc) be considered as an equity contribution?

Ms. Delbridge related that the state's work to date on permitting, right of way, etc. certainly could be considered as an equity contribution; furthermore, AGDC could potentially use the early state investment as the equity contribution on behalf of AGDC as it worked with potential partners down the road.

Mr. Richards added that the mandate provided to AGDC by HB 369 ["HB 369" was made in reference to a bill from a previous legislature.] was to advance a project and identify what its major components and costs would be and that through that process, AGDC had been able to talk to major pipeline companies and shippers from across the nation; AGDC had learned that the project had not been advanced to the point where these companies and shippers felt confident of ascertaining whether it was worthy of their involvement. He explained that the money that the state would put forward to advance the HB 4's project would get it to the point where those potential shippers and/or builder/owner/operators would feel confident that AGDC had followed industry standard practice, cost estimating, and engineering that would provide a pipeline that would be worthy of their participation; at this point, AGDC would try to leverage that money in order to best provide for the lowest possible cost gas to consumers at the earliest possible date.

Co-Chair Austerman requested a brief explanation of the second to last talking point on the members' pre-submitted questions:

- o Too little throughput for market demand; max 1.6 bcf/d and no NGLS's Market demand currently over 5 bcf/d NGLS's are feed stock for value added economy (propane market e.g. helps rural Alaska)

Ms. Delbridge spoke to the second to last talking point and related that AGDC had originally considered shipping natural gas liquids (NGLs) through its pipeline and that at the current time, NGLs had a premium price; however, that premium was disappearing as shale gas took off in the Lower-48 and elsewhere. She related that players were turning to NGL rich plays in order to compensate for extraordinary low prices for the dry gas that they were producing. She stated that AGDC had taken another look at its project and had realized that although the premium price used to warrant the additional engineering and pipe costs of carrying NGLs, that "is not the way that the world is looking at this point" and was not where AGDC's potential shippers' interests were; however, there was nothing preventing AGDC, if there was market interest at open season, from working out a way to ship NGLs, providing that there was sufficient supply and demand to do so.

Representative Hawker appreciated the opportunity to respond to committee questions. He observed that the meetings with the Joint In-State Gas Caucus, which was co-chaired by Vice-Chair Neuman, was a great forum that had raised a lot questions and answers; he encouraged people who were following HB 4 to take a look at those meetings because there had been really good dialogue that had discussed how the project positions itself, the visions of the sponsors, as well as how the sponsors had responded to those visions with the statute that was being proposed.

Co-Chair Stoltze noted that the administration was listening to the meeting and observed that there was a request to have "Mr. Gibson" or someone from the AGIA team respond to the interplay between the "two entities"; he would not make that request officially, but knew that they were listening.

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Ms. Delbridge related that Representative Hawker was currently in another hearing, but could return if the committee so desired. She shared that she had been asked to elaborate about the ability of an AGDC gas pipeline to carry propane under HB 4. She related that the committee had previously discussed NGLs as a whole, but that propane was of particular importance to Alaska. She requested that Mr. Dubler be allowed to explain how propane could work within AGDC's pipeline.

Mr. Dubler stated that in AGDC's new dry-gas scenario, 1.5 percent of the gas coming down the line would be propane; for in-state use and to the extent that there was a commercial enterprise that wanted to utilize that propane in the line, 3500 barrels of propane per day could be extracted from the line, which just about matched the current propane use in Alaska. He reported that the 3500 barrels per day would not allow for expansion into the future, but noted that Alaska was currently using that amount and was importing it.

Representative Gara noted that the presentation had been that the cost of AGDC's project had been reduced by eliminating the infrastructure to ship liquids. He inquired if propane was a liquid when it was shipped by a gas pipeline. Mr. Dubler responded in the affirmative, but stated that 1.5 percent propane content was not enough to cause problems in the gas pipeline.

Representative Gara observed that one of the promises of this, and every pipeline project "we've ever heard of," was that propane would get to Rural Alaska and that its use would be expanded; he inquired if the pipeline would need to ship more propane, "were the promise to come through" and need to go back to design where the additional infrastructure was needed to deal with the liquids. Mr. Dubler stated that AGDC had not looked at that scenario yet and pointed out that the issue during its expression of interest in 2011 was that nobody was interested in propane; the expression of interest had been open to all users of gas and no one had been interested in taking the propane off the line and doing anything with it in-state. He explained that it was not in AGDC's charter to extract propane from the line and stated that AGDC was a gas pipeline company that was to bring gas from the North Slope; furthermore, it was AGDC's understanding that it was not the intent of the legislature for it to be extracting

propane and the corporation had been operating under that assumption.

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Representative Gara expressed confusion and observed that the presentations that he had seen stated that the bill was a way to get propane to Rural Alaska. He noted that if the bill was a way to get propane to rural Alaska, that would seem to expand the amount of propane that would be going through the pipe; he inquired if would it necessitate re-instituting the older project proposal that had the infrastructure to deal with NGLs if that were the case.

Ms. Delbridge responded that on behalf of bill's sponsors, there was no intent in the legislation to have AGDC doing a project that would extract propane and then have AGDC run a propane distribution operation, just as it had also not been part of other pipeline projects; however, propane was considered by some to be one of the potential benefits and ancillary activities that could be done once a pipeline was in place that had a resource coming through the areas that might in fact need it. She reiterated earlier comments that having propane in the pipe did not necessarily require the plan to revert to straddle plants and other engineering increments in order to keep that propane going as long as it was within a given range and there were not a lot of other heavier liquids in the pipe.

Mr. Dubler noted that the important time in the process would be during the project's open season. If AGDC went to a binding open season and a propane company stated that it wanted 10,000 barrels of propane per day off of the line and bid a firm transportation on that, then AGDC would go back and redesign, re-engineer, or whatever it had to do as long as it did not cost more to the entire project than the propane brought to the table; furthermore, this was the purpose of the open season. He explained that AGDC would not know what customers were out there until the customers showed up and that the project had to get to an open season first. He explained that AGDC had conducted an expression of interest, which was basically a non-binding "test run" for an open season and that it had not received any viable interest in propane in the Alaska; the lack of interest in propane during the expression of interest was why AGDC had taken it "out of the line."

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Vice-Chair Neuman understood the current pipe plan would use Schedule 80 pipe at about 2100 pounds per square inch (psi) and believed that at about 2500 psi, propane, butanes, ethane, pentane and other NGLs could be carried in the line. He inquired if it would be in AGDC's ability to change the physics of the pipeline to accommodate added value processing, if there was interest in it during the open season. He believed that Schedule 80 pipe could still hold up to 2500 psi with a higher compression and that under current design, NGLs could still be carried if needed; he inquired if this was correct. Mr. Dubler responded that the 2500 psi line that AGDC had proposed back in 2011 had been modified in the December report and that he believed the current line was 1480 psi in a 36 inch pipe; additionally, the line would probably not use X80 steel, but would most likely use X70 steel, which had a little thinner wall and was a softer pipe with less rigidity. He pointed out that the X70 steel was a lot less expensive than the X80, but that it was a standard pipe that was used all over the country. He relayed that AGDC would be able to buy the X70 steel from many different mills in the U.S. and abroad and pointed out that all of the valves and fittings that went on the pipe would be available "pretty much" off the shelf; the change to X70 steel accounted for a lot of the reduction in cost that AGDC had realized with the new plan.

Mr. Dubler addressed the part of Vice-Chair Neuman's question related to accommodating the line for added value processing. He stated that AGDC could run "what if" scenarios, but that what it was trying to do was get the project to a point where it knew the what ifs, as well as who wanted to participate; at this point, AGDC would be able to design the pipe and the facilities to meet that need.

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Co-Chair Austerman understood that the current plan would not move propane off the North Slope, but would extract it and ship the gas down; he inquired if this was correct. Mr. Dubler stated that current plan was that 1.5 percent of the gas stream would be propane and would travel down the line; furthermore, if there was a commercial interest in that propane when it reached Southcentral Alaska,

Fairbanks, or wherever the interest was, then it could be extracted. He explained that approximately 3500 barrels of propane per day could be extracted from the line under the current plan.

Co-Chair Austerman inquired what would happen if there was no interest in the 3500 barrels per day of propane. Mr. Dubler replied that if there was no interest, AGDC would either redesign the plan to remove all of the propane on the North Slope or would continue to ship it down and mix air with it in Southcentral Alaska in order to bring the BTU content in line with utility-grade gas.

Co-Chair Austerman related that, similarly to Representative Gara, he had anticipated that propane would be part of the effort to get another heating source to customers, in particular to the areas that he represented. He pointed out that his constituents were not on the Railbelt or the road system and that he had hoped and assumed that getting propane down the line had been part of the project. He referenced the expression of interest that AGDC had held and wondered if the lack of interest in propane meant that the right price was not discussed with potential interests. He did not want to call HB 4's gas line project a subsidy, but on the other hand, he did not see any revenues been generated for the state; he opined that this made it somewhat of a subsidy. He thought that there should be a way to offer the propane at a price where it was attractive for people to consider extracting.

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Co-Chair Austerman hoped that he was not "throwing a wrinkle" with his question, but noted that this was the first time that the committee had seen the bill.

Ms. Delbridge noted that the sponsors' intent had always been to make sure that Alaska's needs were taken care of through AGDC and HB 4, but at the same time realizing that the state needed buyers and sellers of a product in order to have a market to ship it within; furthermore, the sponsors wanted AGDC, generally speaking, to be a gas-pipeline developer and not necessarily an entity that

extended into different energy options that were related to actually interfacing with Alaskans "that way." She pointed out, however, that there were opportunities within the legislation in the way that AGDC had been structured to expand on other potential energy options. She offered that Mr. Dubler had a few points that could address the issue.

Mr. Dubler stated that the legislation did allow AGDC to create under it a subsidiary for gas marketing and that AGDC would more than likely utilize that subsidiary, which had originally had been a former sister agency that had become dormant that last several years. He explained that "we've actually created a new entity" that would be in a position to utilize propane from the line if there was a demand and a market for it; the subsidiary would be able to solicit interest in propane or other byproducts of the natural gas for usage within the state similarly to the way that AGDC was required to go and solicit offtake points for the gas line.

Ms. Delbridge stated that for example, the subsidiary cooperation could serve as an aggregator of small propane volumes that a number of in-state interests might want to participate with, but might not be fully equipped to negotiate directly with the pipeline for. She stated that the aggregator could pay for shipment on behalf of smaller communities and get the propane to them; furthermore, the subsidiary would have given advanced notice to communities that were interested in propane to let it know about that interest. She reiterated that if there was insufficient interest, it would be difficult for a pipeline to commit to shipping something that no one was ready to receive.

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Co-Chair Austerman supported HB 4 and moving it out of committee because he saw its advantage to the Railbelt, as well as the advantages of what the natural gas could do along the pipeline; however, he had hoped "all along" that the bill would have a little more emphasis on areas besides the Railbelt. Mr. Dubler pointed out that AGDC had held discussions with the governor's office and others about getting propane down the Yukon River, as well as on barges to get it to coastal communities; AGDC would look into whether its subsidiary could take on and distribute that project.

Co-Chair Stoltze shared Co-Chair Austerman's caution and did not want people following the bill from Rural Alaska to get an exaggerated or unrealistic expectation of what the legislation would provide. He offered that hyping the benefits of legislation could raise hopes unfairly and that he wanted to "flesh that out" as well because "this" had been an ancillary benefit that had been discussed that had brought a broader consensus of support for the bill; additionally, he was a "little bit taken aback, not having followed this detail in previous committees."

Representative Edgmon echoed the comments of Representative Gara, Co-Chair Austerman, Co-Chair Stoltze, and Vice-Chair Neuman. He thought that HB 4 was being put forward in a good-faith effort to get natural gas to all Alaskans, which was stated in the legislative intent. He expressed appreciation for the intent language, but stated that as a member from Rural Alaska, his constituents were paying 3 to 4 times more than what the primary customer base of the proposed pipeline was paying. He inquired why Rural Alaska was not a bigger part of this whole solution. He was unsure of what that solution would be, but noted that in the recognition that the bill was a creature of the legislature, that the legislature could write it how it wanted; furthermore, he intended to insert additional language in the bill to put "those" safeguards in.

Representative Wilson noted that although it was not the bill in front of the committee, SB 23 would be trucking propane and natural gas and doing more build out, so that there would be more need for propane. She noted that there were not currently a lot of people using propane. She wondered if a greater need for propane in a more "urban" area would make a difference to those who might not have come to the table because as a result of the increased use, they saw a bigger need in the state than currently existed; she thought this seemed logical. Mr. Dubler agreed that it would be logical and that for a smaller amount of propane, it might not make sense for an entity to build a plant to extract propane from a line and ship it in-state; whereas, if Alaska was only importing 3500 barrels per day, it could be done very easily from Canada, which was cheaper than building the infrastructure. He offered that if the 3500 barrels per day were doubled or tripled, then maybe the infrastructure would "pencil" to where it would actually make sense to build a plant in Alaska, extract propane, and ship it around the state.

Representative Wilson asked how many homes or residents 3500 barrels per day would serve. Mr. Dubler responded that he did not have that data, but that 3500 barrels was roughly 18,000 gallons. He was unsure how large the tanks were in homes, but indicated that he could get the requested information.

Co-Chair Stoltze thought that there was an opportunity to discuss propane in relation to the current project and noted that there was interest and support for the issue; he thought that it just needed more "fleshing out."

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SPEAKER MIKE CHENAULT, explained that HB 4 was about opportunities for Alaska and offered there were currently zero such opportunities. He discussed different lines, sizes, and pressures and what could be moved under those different scenarios. He spoke about a 48 inch pipeline scenario that some were discussing that would carry NGLs to market and stated that he was unsure of how many people had thought of that scenario. He relayed that when AGDC had first proposed the current project, there was 1 straddle plant in Fairbanks to remove the liquids; however, under the AGIA process there were 5 straddle plants. He explained that under AGIA, an estimated \$250 million straddle plant would need to be built in each of the 5 locations in order to take off dry gas for communities and pointed out that someone would have to pay for the straddle plants. He offered that it might not necessarily be true that HB 4's current project would bring liquid gas and its benefits to Alaskans. He pointed out that HB 4 was about opportunities. He explained that until AGDC got to an open season and saw who wanted gas, in what quantity, and in what chemical makeup, the state would not know what opportunities were there.

Speaker Chenault stated that AGDC had held a non-binding expression of interest and that no one had wanted NGLs; as a result, the project had been redesigned to send dry gas, plus 1.5 percent propane. He explained that the 1.5 percent propane in the line represented about 3500 barrels per day, which was roughly 20,000 gallons. He opined that a tank in most people's homes would probably be in the 300 gallon range and would last most homes months. He related that HB 4 was all about opportunities and that if AGDC got to the

open season and there were people that wanted to sell propane, it would be there to sell. He shared that the bill's sponsors wanted the gas to go to all Alaskans. He acknowledged the concerns of Rural Alaskans that they wanted to see some benefit from HB 4 and pointed out that there was an opportunity for benefit in the legislation; whereas, there was currently zero opportunity. He offered that the legislature could continue to talk about the project, but that until it made a move and put together a real project, the state would not have any shippers or buyers that would come and put down the billions of dollars that needed to be spent in order to make the project happen.

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Co-Chair Stoltze would not view the questions and comments as negative, but offered that the discourse was building the record and explaining some of the steps that had to be taken; additionally, he noted for the public that the questions and comments were part of the constructive dialogue of building what the realistic expectations were and what steps needed to be taken if the project went forward.

Representative Gara offered that there were 2 opportunities facing the state and that there were 2 pipeline proposals that should both be looked at.

Co-Chair Stoltze interjected that there should be a sound bite limit of 2 or 3 times per meeting.

Representative Gara disagreed with the "zero opportunities" comment, but acknowledged that Co-Chair Stoltze was right.

Representative Gara revisited the propane issue and recalled that before last December, HB 4's project was intended to carry NGLs; however, there was analysis conducted that showed that by stripping out the NGLs portion, a certain amount of money would be saved on straddle plants. He inquired how much was shaved off of the project by removing the infrastructure that would allow the shipment of a large amount of liquids. Mr. Dubler replied that the straddle plants cost approximately \$250 million apiece and that there were 2 of them; the cost savings was \$500 million.

Representative Gara thought that at least 1 of those straddle plants would be needed at a cost of about \$250 million if HB 4's project became the project that would send propane to rural Alaska to lower energy costs; he inquired if this was correct. Mr. Dubler responded that it would depend on where the straddle plant was and whether or not it was located above the first offtake point by a utility. He expounded that above the straddle plant would be enriched gas that could not just be put into a home for heating fuel; if the straddle plant was in Fairbanks and there was no one above Fairbanks that wanted or could get the gas, 1 straddle plant would be sufficient, otherwise 2 would be needed.

Representative Gara understood the comments that if a big user on the Railbelt wanted propane, enough might be sold to make it economic, but offered that it sounded like getting propane to Rural Alaska would have a \$250 million to \$500 million cost; he wondered how this would get funded. Mr. Dubler responded that the problem with planning for in-state propane and designing the whole pipeline around in-state propane as a definite end use was that AGDC had to find an in-state use that could handle a \$250 million plant that would make sense and one that ended up with propane that was cheaper than what could be imported from Canada. He recalled his earlier answer to Representative Wilson's question and related that at 3500 barrels per day, that \$250 million plant probably did not make sense; however, at some greater quantity of propane, it probably would make sense. He explained that AGDC did not know what exact quantity of propane would make a straddle plant make sense and related that AGDC was not in propane business; AGDC relied on the private sector to come in and say that, at a certain price of propane, it could build a plant, extract the propane, and distribute it all through Alaska.

Representative Gara noted for the record that he just wanted to get the costs on the table.

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Representative Munoz inquired if it was possible that AGDC could get to the open season and find that there was a greater demand than a 36 inch line could accommodate and if so, how that would be dealt with. Mr. Dubler replied that "it would be hopefully a good day for us" if AGDC had

oversubscribed. He related that AGDC's directive from the legislature was to provide gas for Alaskans and that the utilities that were using gas for Alaskan residents would get first priority on the gas; He indicated that Mr. Kleppin, who was AGDC's commercial manager, could speak to the issue, but believed that there was an allocation between the remaining proposers. He believed that if the project had been FERC regulated, it would require that there could not be a priority to the allocation among proposers. He deferred further comments to Mr. Kleppin.

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DARYL KLEPPIN, ALASKA GASLINE DEVELOPMENT CORPORATION, ANCHORAGE (via teleconference), replied that Mr. Dubler was correct and related that the recourse tariff filing would include methodology for allocating capacity if there was an oversubscription. He expounded that if AGDC had a pipeline that it was designing for 500 Mcf per day and people wanted 600 Mcf, then it would have to allocate capacity so that the total was 500 Mcf per day.

Representative Munoz inquired at what point the limitations of AGIA would go away and further queried what the state's commitment was in terms of the size, shipping capacity, and financial obligations. Mr. Dubler stated that the restrictions under AGIA would not go away as long as there was a valid license in place and a licensee working on that license and furthered that as long as work continued on AGIA, AGDC's project was limited to 500 Mcf per day. He noted that AGDC had been asked "more times than I would like to remember" if it could do more if there was no AGIA project and related that it was a question that he did not really like because it was a what if. He pointed out that obviously, a bigger pipeline was more economical and would bring cheaper gas for Alaskans; however, it seemed naïve to think that if ConocoPhillips, Exxon Mobile, and BP could not make larger line, that the state of Alaska could. He doubted that the state could "pull off" a 3 billion cubic feet per day pipeline or a something similar to what AGIA was proposing if ConocoPhillips, Exxon Mobile, and BP had not been able to.

Representative Munoz wondered if ConocoPhillips, Exxon Mobile, and BP all had active licenses in terms of the definition that was used.

Ms. Delbridge believed that the Trans-Canada Corporation was the sole licensee with the state on AGIA and that the commissioners of the Department of Revenue and the Department of Natural Resources had signed a contract with just the Trans-Canada Corporation. She believed that Exxon Mobile was participating with the Trans-Canada Corporation as a partner, but was not subject to the license agreement with the state. She furthered that BP and ConocoPhillips were the other two producers that "they" have generally all thought needed to participate in a bigger project in order to make it happen; however, the 2 companies had not, to her knowledge, signed on as partners to Trans-Canada like Exxon Mobile had. She believed that ConocoPhillips, Exxon Mobile, and BP, as per the governor's request to them, were working together with the Trans-Canada Corporation to look at another option, including the large export pipeline to tidewater in Alaska.

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Co-Chair Austerman understood that AGDC was not in the propane business. He referred to work that AIDEA had done for Fairbanks; he wondered about a similar option that would allow AGDC to use a subsidiary to transport gas via tanker from Kenai or other rural coastal Alaska regions.

Mr. Dubler believed that the legislation would allow the option as it was currently written.

Co-Chair Austerman asked if the bill would allow the option for gas and not propane. Mr. Dubler replied that the bill would allow propane as well as gas.

Representative Costello asked about the market's role in the legislation. She referred to comments that the market would answer particular questions.

Ms. Delbridge responded that the sponsors had been clear that they wanted to rely on the market to define how the arrangement would take form rather than prescribing a pipeline size regardless of demand; the sponsors wanted the market to determine the size of the pipeline. She stated that the sponsors believed that the state had gone wrong in the past when it tried to prescribe the arrangement narrowly when the market would have preferred different conditions. The legislation had been structured to provide AGDC with as much latitude as possible within the bounds of

its mission to bring gas to Alaskans at the lowest possible rates. For example, AGDC had flexibility to follow the project plan pipeline as described, but with modifications as necessary. She cited one of the modifications shown in AGDC's 2012 year-end project plan amendment, where interest in NGLs was lacking. As a result AGDC had adjusted the pipeline to match the market's environment.

Ms. Delbridge furthered that part of allowing the market to work meant ensuring that AGDC was not able to go forward with a project without sufficient commercial shipping contracts that would support the project financing. She stated that the bill did not allow AGDC to build a pipeline without the market interest. She stated that providing the transportation tool the market needed in order to make things happen would create other opportunities for the rest of Alaska. She stated that a businessperson in the Interior could see a business opportunity in pulling propane out of the pipeline and extending it down the Yukon. She hypothesized that perhaps there was another business enterprise that saw the value in converting gas to liquid or compressed gas for transportation to small coastal communities within the state.

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Representative Costello asked whether there was a timeline or deadline for the opportunities. Ms. Delbridge replied that there were no timelines or deadlines.

Representative Edgmon thanked Speaker Chenault for providing clarification on the bill. He believed the current conversation was critical for the state and his constituents. He referred to HB 9 (from the prior legislative session) and asked if it had included more intent language about distribution to regions outside of Southcentral Alaska that could occur once the pipeline was in place.

Ms. Delbridge answered that HB 4 continued to provide the information. She pointed to a provision on page 9, subsection (b), which told AGDC that once construction had been started on an instate pipeline that it needed to analyze other pipelines that connected to industrial and residential utility customers in other regions of the state. She elaborated that the legislation had been crafted to allow AGDC to pursue other pipelines in the future. The

corporation could consider pipelines that would feed off the pipeline to connect to other communities, utilities, and mines that could benefit from the gas; AGDC would also have the ability to look outside the immediate pipeline corridor. She stated that the legislature had passed oil and gas exploration credits for middle earth the prior session; the legislation would provide the ability for AGDC to assist with a pipeline that would connect a future gasline to other communities if the project was economically viable and there was sufficient public interest.

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Representative Edgmon asked where the bill provided the ability to create a subsidiary corporation for gas work. Ms. Delbridge pointed to page 13, Section 31.25.120.

Representative Gara asked whether there was a scenario under which the project could be built with private financing and without AGDC financing. Mr. Dubler replied in the affirmative. He stated that there were multiple scenarios where that would be the case and that AGDC was hoping it would be the case. The corporation hoped for a successful open season in which numbers, customers, and shippers would validate a viable project that AGDC could bid out. He furthered that pipeline companies could bid to take over the project and continue construction.

Representative Gara surmised that under the scenario there would be private financing and bonding that would not require the legislature to appropriate additional funding.

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Mr. Dubler agreed and detailed that developers would be responsible for securing financing through the market.

Representative Gara asked if the possibility was realistic. Mr. Dubler answered that with a successful open season the scenario was definitely in the realm of possibilities.

Representative Gara asked for verification that if [the legislation became law] AGDC did not need to come back to the legislature for funding, that the legislature would not have the ability to approve or disapprove the project in the future.

Mr. Dubler replied that like other private projects in the state, the legislature would not have control over whether a project was built or not. He added that if producers wanted to build a pipeline at present, they would not be required to obtain legislative approval.

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Ms. Delbridge stated it was important to note that the HB 4 provision allowing AGDC to enter into an arrangement was clear about the corporation's purpose to provide gas to Alaskans at the lowest possible rates.

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Co-Chair Stoltze noted that he had stepped out of the committee room when there had been a very salient question and response and that he would like it addressed for his edification and clarification for the public. He had overheard part of the conversation and thought that it was the intent to not have any further legislative approval of the project subsequent to HB 4; He wanted the issue addressed very clearly on the record.

DAN FAUSKE, CEO/EXECUTIVE DIRECTOR OF ALASKA GASLINE DEVELOPMENT CORPORATION, related that he would briefly defer to Mr. Dubler to clarify a comment that he had made.

Mr. Dubler noted that the committee had been discussing whether or not the HB 4's project would come back to legislature for approval in the event that a private corporation took over and was building the pipeline; the answer to this was no and in that case, the project would not come back to the legislature. However, the project would come back to legislature if it needed more appropriations; in other words, if the state was still in a position to be an owner of the project and was continuing it forward or if AGDC asked the state for moral obligation debt, AGDC would have to come back to legislature. He related that it was important to note that although a private company that took over the line would not be before the legislature, it would be back in front of the RCA for

its tariff. He offered that there would not be an unregulated group of people out there charging Alaskans whatever they wanted. He explained that a private company would still be subject to RCA overview in accordance with HB 4 provisions.

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Co-Chair Stoltze observed that his question represented a public interest question.

Representative Gara saw realistic scenarios where there might be private financing and that AGDC would not come back to the state for an appropriation; therefore, the legislature would not have another say. He inquired if there were realistic scenarios where this would happen.

Mr. Dubler replied in the affirmative, but reiterated that the even though the legislature would not have any more review of the project, the RCA would review all of the aspects that were in the bill.

Co-Chair Stoltze apologized for missing the earlier comments and offered that not being in the room had probably led to some of the confusion. He appreciated the clarification.

Representative Holmes clarified that a private company would either be back before the RCA or possibly FERC if FERC determined that it was a pipeline subject to its jurisdictions.

Mr. Dubler stated that Representative Holmes was correct and that it depended on how FERC looked at the pipeline. He knew that with the larger line, FERC was viewing it as an entire project, including the export and believed that FERC would have jurisdiction over that whole line; however, he believed that FERC viewed AGDC's potential line differently.

Mr. Fauske noted the propane piece that was going in the AGDC pipeline was for the distinct reason of seeing if there was a way that a propane market down the Yukon River and the Richardson Highway could be developed; there were also discussions of getting propane to Valdez and shipping it down to Southeast Alaska. He related that these were ideas that AGDC was looking at that needed further study

and that he did not want to leave the committee with the impression that AGDC would not explore these areas. He offered that AGDC's position had always been that the key was to get a pipeline, get some product in it, and get to the open season. He explained that the open season was really where the rubber hits the road and was when AGDC would start finding out what it had; under ideal circumstances, the product viability would be there and AGDC could start exploring other options. He reminded people that AGDC's project under HB 4, other than the requested \$400 million, had a revenue bond structure where the underlined credit of the project was the project; therefore, if the revenue were there to support the debt service, it freed up other options for legislators. He explained that creating a project that paid for itself would enable looking at further enhancements or expansions and would, in his mind, free up additional revenues; as a result, there would be opportunities in areas that would have needed to be otherwise subsidized, but there would be a product coming down the line "that you can actually do something with."

Mr. Fauske related that he liked the bill's structure. He pointed out that the legislation had a stage-gated approach and that AGDC would be giving the legislature monthly reports; furthermore, there was no way that AGDC would continue with a project that it determined was not viable simply because it had the authorization. He appreciated the questions and acknowledged that the bill was big. He thought that the legislation accomplished a lot of good things.

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Co-Chair Stoltze asked if there was an incentive for AGDC to not spend the full \$400 million if it found out early on that the project would not work. Mr. Fauske replied that "that would not be in the cards" and was not how AGDC operated.

Mr. Dubler noted that out of the \$400 million, there was a significant amount of money for re-engineering after an open season and that if AGDC had a failed open season, that amount would definitely not be spent because there was nothing to re-engineer. If an open season was unsuccessful, AGDC would "end the game" right there.

Representative Wilson clarified that there was a lot of people in Fairbanks in rural areas that would not be getting the gas. She offered that those in Rural Alaska had the same issue that some in Fairbanks had, which was that they were not "big" enough to make the economics work at this point. She stated that if propane use could be grown and Alaska could make a market, it would enable potential interests to see a high demand and market. She opined that people would not come to the table when the demand for propane was too low. She related that Fairbanks could be growing a propane opportunity in the Interior if it "pencils out, even on the other project." She inquired if her above statements were correct. Mr. Fauske replied in the affirmative. He reiterated that once a product was flowing and there was access to something, he was an absolute believer in the economic spirit of "our" country, state, people, and businesses. He could not guarantee anything except that without the gas being there, "none of this" was going to happen; the opportunity existed once there was product. He relayed that it was everyone's desire to fix everything all at once, but that it became so difficult; however, people's hearts were in the right place and he thought that people would be pleasantly surprised at the potential that "exists here" once things were going and started expanding.

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Co-Chair Stoltze understood that Alaska would never have a plan that would reach every Alaskan. He noted that many people considered his district urban, but that he could not think of a single sewer hook in his district, unless "maybe there was a peripheral public building"; it was not economic for natural gas to reach a lot of his constituents. He concluded that even in an urban tax-paying area like his district, a lot of folks would not have access to potential natural gas.

Co-Chair Austerman believed that Mr. Fauske's last statement was absolutely true and that if the HB 4's gasline were built, there would be all kinds of things that would come from it, including transportation issues; the state would have the opportunity to change over a lot of its vehicles and those kinds of things as time went by. He inquired what the effective date on the bill was. Ms. Delbridge replied that the legislation had an immediate effective date.

Co-Chair Austerman inquired what the project's timeframe would be to get to open season. Mr. Dubler replied that AGDC intended to have an open season complete by the end of 2014, which was the end of the following calendar year.

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Representative Gara noted that there was a discussion regarding whether HB 4's project could be privately financed and therefore, would not require additional legislative approval and that the response had been that the RCA would get to review it. He wanted to understand the RCA's role and observed that legislators had their role, which was to make sure that the maximum benefit got to constituents. He inquired if the RCA's role was limited to making sure that the tariff that was charged by the pipeline owner only granted them reasonable profit, and was not geared to whether this was the best project for the State of Alaska. Mr. Dubler responded in the affirmative.

Representative Gara inquired if the RCA also regulated the price of gas. Ms. Delbridge replied that the RCA did not regulate the price of gas for "anything in the state that way."; furthermore, under legislation, the RCA did not just look at an appropriate rate of return, but also ensured that the rates were cost based and were supported by all of the cost data, operations and maintenance costs, and everything else that went into the pipeline. Under the legislation, the RCA would make sure that there was a reasonable rate of return, depreciation method, and capital structure involved; the RCA would not be looking at the ownership of the pipeline beyond looking at the regulatory framework. However, if AGDC did not own the pipeline that was to be regulated, the legislation required a full CPCN process that delved quite far into the owner's financial situations to make sure that they were financially fit, willing, and able to take on the service that they were proposing to handle.

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Representative Munoz inquired about the cumulative fiscal note and pointed to page 1 where there was \$56 million for all of the agency work from FY14 to FY19. She wondered why the reimbursable services portion of the budget was \$27 million if the full fiscal note was \$56 million. Ms.

Delbridge deferred the question to Mr. Dubler and believed that AGDC had prepared the fiscal note with the administration.

Mr. Dubler stated that coming up with the fiscal note had been an intricate process and that it was rather involved. He asked if the question could be repeated.

Representative Munoz noted that on page 1 of the fiscal note, the cumulative costs in additional personnel for the agencies to complete the tasks necessary in HB 4 totaled \$56 million, but that the budget for reimbursable services that would be repaid to the agencies was \$27 million for that additional personnel cost. She wondered why those 2 numbers did not line up. Mr. Dubler replied that the difference between the 2 represented AGDC's cost and that the reimbursable service agreements were only for other agencies that would incur costs on AGDC's behalf.

Co-Chair Stoltze asked if the fiscal note would be one of the last ones the legislature would see if "this" was not under the executive budget act. Mr. Dubler responded that it would depend on the appropriation amount and related that AGDC would need about \$400 million to get through an open season and to project sanction; however, if the appropriation were significantly less than that, AGDC would come back to the legislature for an additional appropriation.

Ms. Delbridge clarified that part of that \$400 million had already been provided to AGDC and what was needed was roughly \$330 million. Mr. Dubler stated that Ms. Delbridge was the correct.

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Representative Gara recollected a previous appropriation of \$200 million and inquired if he was mistaken. He requested a history of the appropriations as well as what was being requested. Ms. Delbridge believed that the legislature appropriated had appropriated \$200 million in 2011 for AGDC to the AHFC Fund; the language in the appropriation would hold that money in the fund until the In-State Gas Pipeline Fund was created through what was then HB 9. She explained that the In-state Gas Pipeline Fund would now to be created in HB 4. She believed that the \$200 million had been partially appropriated, but that it required an additional

appropriation in order move it from the AHFC Fund into the In-state Gas Pipeline Fund.

Mr. Dubler stated that Ms. Delbridge was correct and added that what had happened was that the bill creating the fund never passed the legislature. He explained that the funding appropriation had been specific about the fund being created by the 27th Legislature, but that it was not created by that legislature; as a result, the \$200 million was sitting in limbo at AHFC and if and when a fund is created, a separate appropriation would be required to put it into the In-state Gas Pipeline Fund because the original appropriation language had lapsed.

Representative Gara inquired if there was additional money being requested on top of the \$200 million. Mr. Dubler replied in the affirmative and stated that there was an additional \$130 million request, for a total request of \$330 million.

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

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AT EASE

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ADJOURNMENT

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The meeting was adjourned at 2:50 p.m.