

HOUSE FINANCE COMMITTEE  
March 28, 2013  
9:04 a.m.

9:04:52 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:04 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

Bill Walker, City of Valdez; Representative Hawker; Speaker Mike Chenault.

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."

[9:04:57 AM](#)

BILL WALKER, CITY OF VALDEZ, presented the PowerPoint presentation: "City of Valdez, presentation before the House Finance Committee"(copy on file). He stressed that the "right size project" that benefited Alaska, not the location, was the highlight of his presentation. The city of Valdez supported the best project for Alaska, regardless of the pipeline destination. He recounted a historical synopsis of gas pipeline efforts.

[9:09:15 AM](#)

Mr. Walker discussed Slide 2, titled, "Map with Trans-Alaska Pipeline System (TAPS), El Paso, and YPC." The slide depicted the map of Alaska illustrating the pipeline

routes. He noted that much effort was expended to develop the El Paso Pipeline all American route from tidewater to Point Conception, California. When the project did not materialize, the Yukon Pacific Corporation (YPC) effort was created. He related that \$100 million in funding was obtained to begin the permitting process. He turned to Slide 3:

"Permits Previously Obtained for Gasline to Tidewater by YPC."

Formed by Former Governors Bill Egan and Walter "Wally" Hickel

The following permits have previously been received (now expired) for this project route and terminal location:

- o FERC Declaratory Order Regarding its TAGS Jurisdiction
- o Presidential Finding Approving Export of Alaska Natural Gas
- o Coastal Zone Consistency Determination
- o TAGS Project-Wide Final EIS
- o Ahtna Corporation Right of Way Agreement
- o Federal Pipeline ROW Grant
- o State of Alaska Conditional ROW Lease
- o DOE/OFE Authorization for Export of Natural Gas (Order 350)
- o DOE/OFE Confirmation of Order 350
- o Anderson Bay (LNG Terminal) Final EIS
- o FERC Authorization for Siting LNG/MT Facility
- o Anderson Bay LNG/MT Facility Air Quality (PSD) Permit

Mr. Walker noted that the YPC founders made significant progress, the furthest to date, in the permitting process. He reported that the effort ultimately failed because YPC was not able to purchase the gas.

Representative Gara asked about slide 2. He wondered whether the YPC right of way permits were still valid for use with the Alaska Gasline Development Corporation (AGDC) negotiated right of ways for a pipeline terminus in Valdez or Nikiski. Mr. Walker stated that the YPC permits had expired. He added that the collected data and the fact that the permits were obtained made the effort important.

Mr. Walker turned to Slide 5:

"Alaska North Slope LNG (Liquefied Natural Gas) Sponsor Study Group."

Formed in 1999

Participants:

ARCO Alaska  
CSX Corp.  
Foothills Alaska Inc.  
Marubeni  
Phillips Petroleum

Formed for Sole Purpose of Evaluating 3 Routes to Tidewater from North Slope

1. Richardson Highway to Valdez Marine Terminal
2. Richardson Highway to Glennallen then over to Nikiski via Glenn Highway Route
3. Parks Highway south to Nikiski

Conclusion of Study Group: Route most likely to be permitted by federal/state agencies is the Richardson Highway to the Valdez Marine Terminal route.

Mr. Walker stated that the LNG Sponsor Study Group focused solely on route site selection and the likelihood of successful permitting. The effort did not result in a pipeline. The group authored a report that ranked the different options.

[9:14:18 AM](#)

Mr. Walker moved to Slide 6: "Map with TAPS, El Paso Pipeline, YPC, Alaska LNG Study Group, AGPA, ANGDA, and AGIA" The slide depicted the pipeline routes and numbered them in successive order as listed from number one through seven. He noted that the Alaska Gasline Port Authority (AGPA) was founded by the Fairbanks North Star Borough, North Slope Borough and the City of Valdez. The effort focused on cost estimates and market interest. Subsequently, the Alaska Natural Gas Development Authority (ANGDA) was created via a ballot initiative and formed in statute in 2002. He pointed out that the first six projects discussed were all in-state gas lines. The seventh and last effort was the Alaska Gasline Inducement Act (AGIA). He described AGIA as an out of state gasline. The AGIA

pipeline originally planned for two terminus points: one line constructed to tidewater and another ending in Alberta. The development of shale gas in the lower 48 states prevented the Alberta option from evolving. He remarked that two open seasons on the tidewater option were held.

Representative Wilson questioned whether AGPA held any current right of way permits. He answered that the exclusive permit rights expired.

Mr. Walker directed attention to Slide 7:

AGIA

Funded following \$15 Million of analysis, presented to the legislature following a several month long special session with presentations from numerous industry recognized consultants.

Legislation authorized up to \$500 million for licensee

Contract awarded to TransCanada / Foothills Pipeline  
State of Alaska share of AGIA work cost to date \$300 Million

Results: Over 1 million hours of engineering work on gasline to Open Season to Tidewater

Latest Open Season (September 2012) had a 200 response from the Asian market

Mr. Walker explained that AGIA mandated the licensee, TransCanada/Foothills Pipeline to match (50 percent each) the State's \$300 million share of the costs to reach the first open season in July 31, 2010. Other provisions under AGIA required that the project continue if the first open season was not successful. The state was responsible for 90 percent of the costs for moving forward after a successful open season. He defined that an "open season" culminated in cost estimates that determined the contractual price of the shipped gas.

Vice-Chair Neuman referred to the AGIA open season in September 2012. He understood that the process was a best interest finding; "significantly different" than a true open season and that the result was non-binding. Mr. Walker concurred. He expressed that the first open season was a binding open season and the second was a non-binding

"solicitation of interest". He offered that every project began with a minimum level of interest and progressed into binding agreements.

[9:19:57 AM](#)

Vice-Chair Neuman indicated that AGIA required that an open season take place every two years. He stressed that an open season provided for a binding agreement and the September 2012 event was nothing more than an interest finding. Mr. Walker agreed but concluded that the September 2012 event complied with the AGIA open season requirement.

Representative Holmes thought that the AGIA pipeline was designed to travel through Canada. She wondered how much of the one million hours of engineering work was spent exploring the route to tidewater versus Canada. Mr. Walker responded that was difficult to determine. The first open season contained a posted tariff to tidewater. He could not offer a definitive answer but believed there was enough time to conclude with the binding open season in 2010.

Representative Munoz asked what a "200 percent response" was. Mr. Walker instructed the committee that initial analysis concluded that a successful LNG project required a certain amount of volume to flow through the pipeline. The breakeven amount was 2/bcf (billion cubic feet). The analysis was figured at 2.7/bcf. The AGIA solicitation of interest response from the world's largest buyers of natural gas added up to 5.5/bcf.

Representative Gara asked about the solicitation of interest in 2012. He asked whether the terms of the solicitation of interest were offered under conditions that were not yet available. Mr. Walker stated that terms and conditions were established with the project developer after the solicitation of interest. He reminded the committee that an open season was not about buying gas but shipping gas. The problem lied in acquiring gas at the wellhead; the reason AGIA held a solicitation of interest instead of a binding open season.

[9:25:09 AM](#)

He referenced Slide 8:

"Results of September, 2012 Open Season."

AGPA  
KOGAS (Korea)  
POSCO (Korea)  
GS Energy (Korea)  
PTT International Company, Ltd. (Thailand)  
PGN LNG (Indonesia)  
East-West Power Company Ltd. (Korea)  
2.8/bcf/d [billion cubic feet per day]

Resource Energy, Inc.  
Japan Exploration Company, Ltd. (Japan)  
Idemitsu Kosan Company (Japan)  
JX Nippon Oil & Energy Corporation (Japan)  
Mitsubishi Gas Chemical Company, Inc. (Japan)  
Nippon Telephone and Telegraph (Japan)  
2.7/bcf/d

5.5/bcf/d [Total]

Mr. Walker detailed that during the 2012 AGIA open season the buyers expressed interest in purchasing specific volumes of natural gas. He provided a brief description of some of the Asian companies: (1) KOGAS was the largest purchaser of LNG in the world. (2) POSCO was the top fifth largest steel manufacturer in the world. (3) East-West Power Company Ltd. was a subsidiary of PEPCO the largest national power generator in Korea. He reported previous interactions with many of the Asian companies and was "excited" to learn of the response to the AGIA solicitation of interest in 2012. He remarked that Resource Energy, Inc, a Japanese consortium, did not have a preference for a designated pipeline location. The consortium recently opened offices in Anchorage. He met with the company representatives who expressed great interest in Alaskan LNG.

Co-Chair Stoltze asked what conclusions were drawn by the information in the presentation. Mr. Walker hoped to prove that there was a strong interest in the market place for Alaskan LNG.

Representative Wilson expressed confusion about which plan he was discussing and asked for clarification. Mr. Walker stated that the information on slide 8 was relative to AGIA. He wanted to demonstrate that the opportunity existed to develop a large volume Alaskan line by some entity. He had no bias towards a particular project. He wanted to

highlight the opportunity that currently existed for Alaska in market interest. He proposed swift action.

[9:30:44 AM](#)

Representative Wilson expected that the presentation would provide an examination of an alternate plan to HB 4. She expressed interest in the AGPA plan. She asked whether his presentation included an alternate plan supported by the City of Valdez. Mr. Walker replied that the discussion would evolve.

Representative Costello asked who Mr. Walker was representing at the time of the discussions with the Asian companies. Mr. Walker replied that he was representing the Alaska Gasline Port Authority.

Representative Gara asked whether the Asian companies expressed interest specifically under AGIA. Mr. Walker confirmed that the interest was submitted under AGIA.

Mr. Walker continued with Slide 9:

"Results of September 2012 Open Season"

Volume used by Wood Mackenzie in their LNG analysis -  
2.7 bcf/d

- Volume nominated at September 2012 Open Season by  
ASIAN Market - 5.5 bcf/d
- In-State Market - .25 bcf/d

Total: 5.75 bcf/d

Mr. Walker informed the committee that 5.9/bcf was the largest volume that can flow through a 48 inch pipe. The open season resulted in interest in the full volume of the pipeline.

Mr. Walker offered Slide 10, "Map with TAPS, El Paso Pipeline, YPC, Alaska LNG Study Group, AGPA, ANGDA, AGIA, ASAP (HB 4)" that depicted an image of the proposed routes including the routes under HB 4, with HB 4 designated as the eight project.

Mr. Walker turned to Slide 11:

"Alaska's Energy & Fiscal Challenges"

1. Fiscal Cliff - 90% Alaska revenues tied to oil
2. High Energy Cost - Interior / Statewide
3. Southcentral Gas Supply

Mr. Walker moved to slide 12:

Fiscal Cliff:

Is There Any Revenue to Alaska From LNG Exports?

Mr. Walker believed that Alaskan LNG was a resource that offered the state a revenue base.

Representative Thompson asked about the Alaska Gasline Port Authority (AGPA). He related that the North Slope Borough withdrew from the agreement some years ago and that some North Star Borough assembly members wanted to back out of the agreement. He asked for clarification about the direction of the project and who was still involved. Mr. Walker confirmed that the North Star Borough was considering parting from AGPA. He interjected that the AGPA mandate was to "build or cause to be built." The port authority supported any LNG project that was in the best interest of Alaska. He believed that AGPA incited ample interest in Alaska LNG and credited AGPA for the response to the AGIA open seasons.

[9:36:09 AM](#)

Representative Thompson understood that the Fairbanks North Star borough stopped contributing to AGPA. Mr. Walker related that the last payment made by the Borough was in 2009. The private sector had contributed the majority of the port authority funding.

Representative Wilson questioned why the private sector pulled its AGPA funding. Mr. Walker voiced that the private sector "lost faith" that Alaska would strive to bring natural gas to the market. The private sector ultimately believed that the gas was not attainable.

Representative Wilson asked whether the private sector lost faith in the port authority or in Alaska. Mr. Walker replied that the private sector wanted to buy gas at the wellhead and it had nothing to do with AGPA. He pointed out

that the leaseholder, Exxon Mobil did not engage with Mitsubishi, whose interest in purchasing natural gas was solicited by AGPA. Within one months' time Mitsubishi made other arrangements outside of Alaska.

Representative Wilson thought that it worked backwards to find buyers for something someone else was not willing to sell. Mr. Walker responded that the process was customary. Terms of the lease required that leaseholders sell to an offer with a reasonable expectation of profit.

[9:40:22 AM](#)

Representative Gara asked whether the leaseholders were holding back from selling until they can negotiate terms in their best interest. Mr. Walker discerned that based on "letters to the Governor", that was a plausible conclusion in regards to a pipeline. In addition, he reported that purchasers were willing to buy natural gas at the wellhead on a fixed dollar amount and agreed to participate in the pipeline portion of the project. Yet, there was still no action by the leaseholders.

Mr. Walker briefly turned to the following slides

Slide 13:

Does Alaska Make Money off LNG?"

From an economic perspective, Alaskan LNG exports are competitive, viable across scenarios, and could generate between \$220 and \$419 billion for Alaska

Slide 14:

"Can Alaska's LNG Compete?"

Access to currently re-injected gas upstream puts the Alaska LNG liquefaction project in an economically competitive position relative to others...

The slide included a graph that demonstrated Alaskan LNG exports estimated at a cost structure of \$8.50/MMBtu [million British thermal units] (2011 estimates)

Slide 15:

"Can Alaska's LNG Compete?"

"...and It competes favorably with both proposed Australian and other North American export facilities which have yet to reach FID (Final Investment Decision)

The slide contained a graph comparing the Alaskan \$8.50/MMBtu figure with other projects in Australia and North America and showed Alaska at the lowest price.

Mr. Walker expounded that Wood Mackenzie, the consultants who conducted the study used the AGIA open season information and the landed costs to transport LNG from Alaska to Japan including the highest costs for liquefaction, to come to the conclusion that Alaskan LNG was competitive and profitable.

Vice-Chair Neuman returned to Slide 14. He asked where in the analysis were the costs to buy and build the pipeline that was estimated to cost \$40 - \$60 billion. He asked for the amortization of the cost as well as the timeline for the investment. Finally, he questioned how the project was ultimately funded. Mr. Walker indicated that the depicted transport tariff of \$1.70/MMBtu was the revenue used to pay off the pipeline. The timelines were: (1) ten years for construction. (2) 30 years to pay off a pipeline.

Vice-Chair Neuman questioned the payoff numbers and wondered where the money to build the pipeline would come from. Mr. Walker responded that that the consultant used AGIA figures to determine the payoff costs over 30 years. He added that besides the \$1.70/MMBtu transport tariff, \$2.22/MMBtu [for Processing and Shrinkage] and \$.26/MMBtu [for WH-Processing] contributed to the payoff of the pipeline infrastructure. He elaborated that the use of using tariffs over a 30 year period was common practice and was similar to the payoff of a toll road. He continued that the funding for megaprojects typically were market generated. The financing was based upon the strength of the market place and long term contracts. He remarked that financing was never the problem. He mentioned a \$55 billion LNG project in Australia under current construction that was one third smaller than the AGIA project. He explained that Alaska had advantages over Australia with a larger

project and a colder climate, which was 40 percent more efficient. Alaska's location provided low shipping costs at \$.59/MMBtu because Alaska was closer to the market as opposed to the Gulf coast which costs \$3.00/MMBtu. He noted that Norway shipped to the Asian markets at higher shipping costs. He believed Alaska had significant benefits over other locations.

[9:48:05 AM](#)

Representative Holmes asked whether the costs depicted in slide 14, included the cost of the gas. Mr. Walker stated that it did not. He explained that the cost of the gas at the wellhead was added to the \$8.50/MMBtu and estimated at \$5.50 to \$7.50/MMBtu.

Representative Holmes asked when the Wood Mackenzie study took place. Mr. Walker replied that the study took place July 27, 2011. Representative Holmes asked whether changes in the market place occurred since then. Mr. Walker answered that some up or down fluctuations had occurred. The numbers were based on 2.7/bcf billion feet and if the project was as large as 5.5/bcf the costs would drop by half.

Co-Chair Austerman commented that today's natural gas market would not support what the Asian market was willing to pay in 2011. He wondered if the information remained valid.

Representative Gara asked about the dis-insensitive rates contained in AGIA for Alaskan communities. He wondered whether the cost of natural gas for Alaskans would be less than the \$15.00/MMBtu costs shipping to Asia. Mr. Walker stated that the rate for Fairbanks under AGIA dis-insensitive rate was \$5.29/MMBtu.

Co-Chair Stoltze requested that Mr. Walker share his concerns regarding revenue issues and consumer costs associated with the legislation.

Mr. Walker addressed Slide 17: "Post Treatment Gas Composition Estimate." The slide contained a chart that compared the BTU Content per cubic foot (pre LPG [liquefied petroleum gas] extraction) of the chemical composition of lean and rich gas. He elaborated that "gas liquids" had market value. He worried that the gas liquids would remain

undeveloped. Gas liquids provided opportunities for value added use within Alaska. He noted that the biggest benefit of Alaskan LNG which was lacking in other localities was its high BTU (British Thermal Units) content containing gas liquids.

Mr. Walker moved to Slide 18:

"South central Gas Supply"

Long Term Gas Supply Work Group  
Regulatory Commission of Alaska"  
Public Meeting October 24, 2012 9:00 AM

Mr. Walker noted that a utility consortium was aggressively exploring importing LNG into Cook Inlet.

Mr. Walker turned to Slide 19:

"Southcentral Gas Supply."

- ⊗ No Southcentral gas shortfall percentages are anywhere near 100%
- ⊗ Not all gas in Southcentral goes away
- ⊗ Exploration activity is up
- ⊗ Import volume price blended with local gas price

Mr. Walker related that according to testimony to the Regulatory Commission of Alaska (RCA) imported gas could supplement a possible supply shortfall of Cook Inlet LNG. The idea was to blend a 10 to 20 percent volume of higher cost imported LNG to the \$6.00 [MMBtu] current cost minimizing the cost increase to consumers.

Mr. Walker directed attention to Slide 20:

"How Does HB 4 Solve Alaska's Energy/ Fiscal Crisis?"

- ⊗ Revenue to Alaska? - NO
- ⊗ Cost of Energy? Fairbanks [Lower] Southcentral [Higher]
  
- ⊗ Built in Time to Resolve Fairbanks/Southcentral Energy Crisis? NO (2019-2020)

- ⌘ Liquids for value added jobs? NO
- ⌘ \$400 million to be able to hold an Open Season  
- same place AGIA was on July 2010

Mr. Walker expressed apprehensions over HB 4. He commended the work that was done on the in-state gasline, but, he believed that the timing didn't solve Interior or South-central energy problems. He added that the project doesn't bring revenue to the state. He felt the thickness of the pipeline design proscribed a higher volume of gas which contained more of the valuable liquids. He exemplified that it was illegal to extract raw natural gas liquids out of Alberta. He felt that the natural gas liquids that were not needed for export should be extracted out in Alaska and value added.

Mr. Walker pointed to Slide 21:

"Options for Solving Energy Crisis"

- ⌘ HB4 study to hold an Open Season in 2-3 years = \$400 Million
- ⌘ Fairbanks - LNG Trucking \$250 Million = gas to Fairbanks at \$10.00-\$12.00 range (2 years)
- ⌘ Southcentral - LNG Imports = \$80 Million regas for gas at \$9-12 range (2-4 years)
- ⌘ Total cost for Fairbanks / Cook Inlet solution = \$330 Million

Mr. Walker felt that HB 4 was the "wrong project" to advance. He added that the cost to advance HB 4 to another open season was \$400 million. He opined that the money could be better spent solving the Fairbanks and Interior issues with other options in a more timely manner.

[9:55:44 AM](#)

Mr. Walker turned to Slide 22:

"Why Are We Ignoring the AGIA Open Season?"

- ⌘ AGIA Has Produced Volumes of Work Resulting From Over 1 Million Hours of Engineering, Cost Estimates, and Field Work. Approximately \$500 Million spent to date on Open Season.

☞ When the \$400 Million is expended under HB4, it would take us back exactly to where we were on July 31, 2010 under AGIA.

Mr. Walker thought that AGIA worked and brought offers to the table. The HB 4 project was constrained by AGIA; therefore was not a "whole project." He opined that the state should move forward with a complete large diameter pipeline to tidewater that benefitted the entire state, travelled to tide water, was able to extract natural gas liquids and tied to a market place. He emphasized that whatever project advanced must be the right project for the entire state.

Mr. Walker offered Slide 23:

"A Way Forward."

What Alaska Should be doing Rather Than Spending \$400 Million to Begin Yet Another Open Season Process (Third)

1. Engage directly with those companies in Asia that responded to the AGIA Open Season (September 14, 2012)
2. Engage with AGIA licensee to direct next step in engaging with Asian market
3. Engage with North Slope producers to determine cost of "fiscal certainty" regarding gasline to determine if it is cheaper for Alaska to own it - built by the private sector now

Mr. Walker reported that companies that responded to the AGIA open season contact him weekly to ask why there was no response to its offers.

Mr. Walker reviewed Slide 24:

"Conclusion"

There is no logical reason to spend \$400 million to begin a study for another Open (Third) Season When the last one had a 200 percent response from the Asian market.

Mr. Walker continued that not only was the \$400 million cost of HB 4 to advance to a redundant open season an issue, the development of shale gas changed the world market. He thought that gas was more abundant than markets. Time was being wasted with HB 4 instead of "engaging with the market" and advancing a large Alaskan project. He warned that enough work was completed on AGIA that lead to a successful open season. He advised that if AGIA isn't the right project the state should negotiate a way out so not to hinder the right project from moving forward.

Mr. Walker concluded with Slide 25:

"Conclusion"

Risk to Alaska's Future?

While we begin yet another study process, the Asian market signs long-term LNG contracts with projects being built in Australia, British Columbia, U.S. Gulf Coast, and Russia

Mr. Walker believed that the legislation would duplicate work that already culminated in an open season when the emphasis should be placed on delivering Alaskan gas to market.

Representative Wilson asked which project he supported. She wondered what was stopping the port authority from carrying out the consortium's project of importing LNG using private sector money. Mr. Walker replied that the Port Authority was not advancing the LNG import project. The port authority believed that the import project was the best option for the short term. He noted that AGPA "always advocated for a large volume line with an economy of scale to benefit all Alaskans." He reminded the committee of the AGPA goal, "build or cause be built." Therefore, AGPA would rather see using the AGDC talent created in HB 4 to use existing work to further a large volume line that benefitted the entire state and not delay another two years.

[10:01:57 AM](#)

Representative Wilson communicated that Fairbanks believed that the state was standing in the way of advancing a complete AGPA project, but she learned from the

presentation that AGPA wanted the state to "get a line built." She asked for clarification. Mr. Walker offered that the AGIA process moved ahead of the port authority project and accomplished a successful open season. He claimed that the port authority open season process was interrupted by a North Slope producer asking Bechtel [Bechtel Corporation] to terminate working for AGPA. He reiterated that AGPA held back its efforts because AGIA appeared to be moving forward. The port authority put "jurisdictional interest" aside and recognized the AGIA effort; a large volume project with promising benefits for the entire state. He maintained that the \$300 million for HB4 and the efforts of AGDC were better served to advance AGIA; a project with the economy of scale that better served the interests of the market and provided revenue to the state.

Representative Wilson reiterated her request on clarification about the port authority project. She maintained that Fairbanks was about to make an important decision regarding AGPA. She interpreted from the presentation that AGPA had no current project, but instead was "cheerleading" the AGIA plan. She wondered if the community was misrepresented about AGPA. She questioned his opposition to the legislation. Mr. Walker declared that no misrepresentation occurred. The port authority spent years establishing a relationship with the market that AGPA brought to the AGIA open season. He maintained that the port authority's role accomplished cost estimates, obtained permits and brought the market interest to Alaska. He commented that the 2.7/bcf proposal by Asian companies was "phenomenal." The port authority worked with 30 different companies to make it happen. The market was the most important piece of any project. The market paid for the infrastructure associated with a project. The port authority worked in the best interest of Alaska.

[10:07:00 AM](#)

Co-Chair Austerman felt the presentation shed light on the AGPA's and City of Valdez's concerns. He shared the concern and understood that a large major line produced a profit and resulted in better prices for the state. He observed that BP, Conoco Phillips, and Exxon were not responding to the open season. He believed that the producers were not interested due to shale gas development in the lower 48 states. The price of natural gas was no longer tied to the

price of oil and was low. He did not believe current market prices could amortize the cost of a \$40 to \$60 billion pipeline. He supported the legislation. He thought that based on the current world market, HB 4 was the only viable option today to bring gas to Alaskans. He agreed that many purchasers were available but did not feel market prices would support a large volume project in the foreseeable future.

Representative Holmes concurred with Co-Chair Austerman's statements. She understood the benefits of a large volume line for the state. She felt she heard conflicting direction in the presentation. She asked what direction the state should pursue. Mr. Walker did not subscribe to the state's wait and see approach. He argued that the state needed to assess whether AGIA failed or required advancement. He felt the state could not "sit on the control of the future of the state under AGIA and not do anything." He advised that the state directly confront the leaseholders for a response. He announced that AGIA had an exit provision and advised that the state seriously examine it. The state needed to move on. He emphasized that Alaska owned the resource. The leaseholders did not have the legal right not to sell at the wellhead. In other parts of the world leaseholders were required to develop leases or risk losing the lease. The state should not let the producers voluntarily make the decision to develop the leases or they will procrastinate until it suits a best interest. He warned that the state must take control of the situation or will remain last in line for natural gas development. He informed the committee that prices on a LNG contract were locked in so project risks were known. He felt time was of the essence.

[10:14:50 AM](#)

Representative Holmes asked if he advocated that the state build a gasline. Mr. Walker advocated that the state build the natural gas pipeline in partnership with the private sector.

Representative Thompson asked about the [federal] Department of Energy's (DOE) dismissal of the AGPA LNG export application. He relayed that the DOE's stated reasons were lack of a plan for the pipeline or plant. Mr. Walker explained that AGPA was the only group pushing for an export license. The port authority felt that the AGIA

process was developed enough for an export license but the DOE disagreed. The port authority selected a specific site for the terminal but the DOE wanted more specific information. In addition, the DOE required gas contracts. He noted that the DOE invited the group to reapply and AGPA was engaged in the reapplication process. He revealed that Alaska will lose its export license on March 31, 2013. The state retained an export license since 1969.

Co-Chair Stoltze announced that he allowed the presentation in order to offer dissenting views on the record. He discerned that Alaska can only build one natural gas project. He asked what would happen if Alaska chose the HB 4 project. Mr. Walker asserted that HB 4 was a mega project. The gasline would be the largest project built in the United States. He concurred that there was only room for one mega project in the state. As a longtime advocate for a gasline he felt uncomfortable arguing against HB 4. But, based upon the evidence he feared that Alaska would settle for far less than what we were entitled to. He believed the sponsors were well intended.

Co-Chair Stoltze questioned whether it was "worth settling for less or settling for nothing." Mr. Walker answered that the project did not provide revenue to the state, did not provide lower energy costs and actually increased the cost of gas in Southcentral. He identified less expensive options to solve the immediate energy problem in Southcentral Alaska. He concluded that less was probably not better than nothing.

[10:21:42 AM](#)

AT EASE

[10:22:38 AM](#)

RECONVENE

REPRESENTATIVE HAWKER appreciated the presentation. He felt the committee agreed with the concerns and frustrations expressed by Mr. Walker. He recapped that AGIA was not working, there was no forward movement, and agreed that the state should "go it alone." He stressed that the sponsors shared the frustration. He was concerned that the private sector project had languished. He agreed that there was a strong Asian niche market for Alaskan LNG. However, his foremost concern was to meet the in-state Alaskan energy needs. He commented that the City of Valdez spent \$900

thousand to kill HB 4 and supposed that Mr. Walker's presentation was included in that amount. He believed that the arguments put forward by Mr. Walker were exactly why the committee should support the bill. He emphasized that the sponsors intended to utilize the talent in AGDC to benefit the entire state. The bill was designed to empower AGDC to "build a brain trust" that was responsible to the citizens of the state. He reminded the committee that the state had a contractual obligation to TransCanada. The state could not easily leave the contract. The legislation was written to allow AGIA to move forward, but enabled AGDC to move a viable project forward if AGIA failed. The mechanisms to get out of AGIA involved arbitration and proof that the project was non-economical. He deemed that would last ten years. He stressed that HB 4 was in the best interest of Alaska. He hoped that the legislation would evolve into a bigger project and that HB 4 was "constrained by commitments that the legislature made in the past" and hoped to work around them.

Representative Hawker countered some of the conclusions drawn in the presentation. He voiced that the cost of Cook Inlet gas was already on the rise. He relayed that his local utility purchased Cook Inlet gas this winter at \$22. Mcf (thousand cubic feet). The sponsors were aware that an Alaska in-state gasline will not move forward unless it can "beat the price of importing LNG." He reminded the committee that the \$400 million took the project "all the way to the project sanction." He questioned the claims by the City of Valdez. The mayor stated in a press release that the AGIA open season in 2012 was successful and justified moving forward with a large volume gasline to tidewater. He believed that the open season was a non-binding expression of interest. He investigated the statement and questioned two of the producers involved who could not corroborate the mayor's statements. He relayed the administration's desire to move forward with both AGIA and HB 4. He emphasized that both were the best prospects for the state.

[10:31:58 AM](#)

SPEAKER MIKE CHENAULT, believed that Mr. Walker had the best intention for the state of Alaska. He pointed out that all of the previous gasline projects listed on the slides had failed. He related that in discussions with Alaska Oil and Gas Conservation Commission (AOGCC), the volume of 5.5/

bcf of gas would not be allowed to flow through a Prudhoe Bay gasline. The loss of oil revenue would be greater than the amount of income gained from that amount of natural gas production. He noted that Pt. Thompson was not an alternative because it was still classified as an undetermined field and AOGCC would not permit a high volume of production until the oil field was classified. He agreed that the volume of the gasline in HB 4 should be as large as possible; it was limited by current law and AOGCC. The commission was tasked with ensuring Alaska received the best value from its resources. He understood that a market in ASIA existed but was changing. He thought that relationships played a big part in contracts in the Asian market, but they only go so far. The energy cost was the important piece. The state lost historical LNG contracts with Tokyo Light and Power of Japan (BP was providing less than one percent of its LNG needs) notwithstanding an established relationship with the state.

10:37:08 AM

Speaker Chenault reiterated that the cost of Cook Inlet gas was \$22. Mcf for peak gas. He wondered why there was so much concern over a pipeline that could offer \$9./Mcf for year around gas. He believed that the \$9/Mcf gas was preferable to \$22/Mcf. He agreed with Mr. Walker's desire to construct the largest volume pipeline. He felt that the time for waiting for a large diameter line was over. He declared that if the state ended up importing LNG to meet its energy needs then the state's elected officials failed its citizens in our commitment to do what is best for Alaska. The "means and mechanisms" existed to develop a long term energy source for the citizens of the state.

Co-Chair Stoltze was glad that any gas was available for his district at the coldest peak months regardless of price. He stated that the consequences of no gas availability were too severe.

Representative Hawker added that no gas pipeline would provide an immediate solution. He related that short, medium, and long range solutions were necessary. The Cook Inlet Recovery Act (2010) that provided for a gas storage facility was an example of an immediate short term solution that worked, but was not enough for the long term. The gas trucking legislation [SB 23-AIDEA: LNG PROJECT; DIVIDENDS; FINANCING] would not provide a long term solution. He

offered that the long term solution was Alaska's vast gas supply from the North Slope.

[10:41:33 AM](#)

Representative Gara recapped that a large volume line would provide cheaper gas and more export revenue. He noted that AGIA limited the size of other gaslines to .5 bcf or less. He wanted to move ahead with both projects. He understood that the governor was making progress on AGIA and if the process was stalled HB 4 was another mechanism. He expressed concern with the language of HB 4. The legislature did not have an opportunity to respond. With passage of the bill, the language allowed the project to move forward if additional state funding was not necessary. Previous legislation such as the Stranded Gas Act authorized final legislative approval. He thought that the state could "get stuck" with the HB 4 project if it proved undesirable to the state. He questioned how the sponsors felt about that outcome. Speaker Chenault replied that HB 4 and the Stranded Gas Act [Alaska Stranded Gas Development Act, 1998] were different. The Stranded Gas Act required that Alaska pay for 20 percent of the project which amounted to approximately \$9 billion. He felt that in that instance, legislative approval was appropriate. He reiterated that HB 4's total cost to the state was \$400 million. He judged that at the point of moving forward with contractual agreements the project was best left out of the "political realm."

Representative Hawker agreed with the Speaker. He noted that HB 4 provided for state involvement in the process. The legislation built in the regulatory structure that allowed the state to invest in the project, but only with legislative approval. He did not feel that sending industry the message that the state only wanted private industry development that was state sanctioned was the wrong policy call. He wanted a state that fostered economic development in the private sector. He summarized that HB 4 contained a "plethora of checks and balances to protect the states interest without compromising the ability of the private sector to move forward" with efficiency.

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

10:50:27 AM

#  
ADJOURNMENT

The meeting was adjourned at 10:50 a.m.