

HOUSE FINANCE COMMITTEE

April 1, 2013

1:42 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:42 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative David Guttenberg

ALSO PRESENT

Representative Mike Chenault; Joe Dubler, Chief Officer AGDC; Rena Delbridge, Staff, Representative Mike Hawker; Representative Mike Hawker.

PRESENT VIA TELECONFERENCE

Stuart Goering, Department of Law, Anchorage; Dave Haugen, Project Director, AGDC.

SUMMARY

CSSSHB 4(FIN)

IN-STATE GASLINE DEVELOPMENT CORP

CSSSHB 4(FIN), as amended was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the House Finance Committee for Fund Capitalization and one new fiscal impact note from the House Finance Committee for Various departments including Department of Law, Department of Natural Resources, Department of Environmental Conservation, Department of Transportation and Public Facilities, and Department of Commerce, Community and Economic Development.

#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 stated that the committee's agenda would address amendments to the legislation.

Co-Chair Austerman MOVED to ADOPT Amendment 2, 28-LS0021\R.12, Bullock, 3/30/13 (copy on file):

Page 7, line 10, following "gas":
Insert ", including propane and other hydrocarbons associated with natural gas other than oil,"

Page 7, line 12, following the second occurrence of "gas":
Insert ", including propane and other hydrocarbons associated with natural gas other than oil,"

Page 7, line 13, following "gas":
Insert ", including propane and other hydrocarbons associated with natural gas other than oil,"

Page 7, line 16, following "gas":
Insert ", including propane and other hydrocarbons associated with natural gas other than oil,"

Page 13, line 21, following "state":
Insert ", including the delivery of natural gas, including propane and other hydrocarbons associated with natural gas other than oil, to coastal communities in the state,"

Co-Chair Stoltze OBJECTED for the purpose of discussion.

Co-Chair Austerman discussed the need to provide rural areas the ability to seek alternative energy sources. He pointed out page 13, line 21. He wished for the option to transport fuel to coastal communities, allowing them to benefit from the gasline, if the project proceeded to salt water.

Co-Chair Stoltze intended to provide opportunities for the bill sponsors and the Alaska Gasline Development Corporation (AGDC) to speak to the amendments.

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REPRESENTATIVE MIKE CHENAULT, SPONSOR did not see a problem with the amendment. The intention of the legislation was to provide gas to all areas of Alaska. He wanted residents of rural Alaska to know that their interests were heard.

Co-Chair Stoltze wished to keep the policy well intentioned.

Representative Kawasaki asked if the amendment's language would change the work project plan submitted by AGDC.

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JOE DUBLER, CHIEF FINANCIAL OFFICER, VICE PRESIDENT ALASKA GASLINE DEVELOPMENT CORPORATION, stated that the amendment's language would not affect the work plan. He stated that the language was permissive and allowed AGDC to make propane available to entities interested in distributing propane or natural gas throughout the state.

Co-Chair Stoltze discussed the optimal goals of delivering energy to Alaskans.

Representative Gara expressed concern that AGDC would not remain true to the original plan. He recalled that the elimination of the straddling plant lessened the cost of the project. He recalled testimony that additional infrastructure was necessary to ship propane to rural Alaska using the river system.

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Mr. Dubler responded that the plan assumed that 3500 barrels per day of gas_[BSW1] would be shipped down the gasline, which equaled the current usage in the state. If further interest in propane developed, a straddle plant would be necessary in Fairbanks. The cost of the propane would then reflect the cost of the straddling plant.

Representative Gara asked if consumers in rural Alaska would then pay for the additional infrastructure. Mr. Dubler replied yes.

Representative Wilson pointed out that a large part of the Fairbanks Northstar Borough would not join the gas system. She assumed that rural boroughs would benefit from the language in Amendment 2_[BSW2].

Mr. Dubler agreed. He stated that the Southcentral region of the state had an operating LNG plant supplying Fairbanks. The plant would have surplus capacity if Fairbanks received natural gas via the instate gasline and might be available for shipments to other parts of Alaska.

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Co-Chair Stoltze WITHDREW his OBJECTION.

Representative Kawasaki asked about the amendment's reference to "coastal communities." He wondered about those rural areas located on a road system, but not in a coastal community.

Co-Chair Austerman responded that the amendment's concept was forward-thinking regarding the uses for natural gas. He mentioned the idea of burning LNG [liquid natural gas] in ferries. He wished to lift restrictions to the agency if other opportunities became available.

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Representative Kawasaki wondered if the use of the words "coastal communities" might be restrictive in nature.

Representative Edgmon replied that HB 4 would provide organized preparation for a gasline solution. He did not view the amendment's language as restrictive.

Representative Gara expressed concern that the bill's original promises included propane and one or two straddling plants. He suggested that the reinstatement of the plan would be cost prohibitive to the smaller communities.

Mr. Dubler clarified that propane customers would have paid for the straddle plants under the original configuration;

the cost of the propane would have reflected the straddle plants.

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment 2 was ADOPTED.

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Co-Chair Stoltze MOVED to ADOPT Amendment 3, 28-LS0021\R.15, Bullock, 4/1/13 (copy on file):

Page 47, line 9:

Delete "period not longer than six months"

Insert "for a period not longer than 90 days"

Representative Gara OBJECTED for discussion.

Co-Chair Stoltze explained the amendment. He stated that the amendment eliminated a time period of months from the legislation. The amendment reduced the time frame to a more precise manner of specific days. He noted that discussions with the administration yielded the opinion that this was the preferred time frame.

Representative Gara asked if the reduction to 90 days limited the time allowed for the Regulatory Commission of Alaska (RCA) to determine the cost of transporting gas.

Representative Holmes stated that the 90-day^[BSW3] change would allow the RCA to review the recourse tariff and be able to suspend it for 90 days upon motion or complaint to conduct hearings and review.

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AT EASE

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RECONVENED

STUART GOERING, DEPARTMENT OF LAW, ANCHORAGE (via teleconference), responded that the RCA reviewed the original proposal and promised to follow the direction set forth by the legislature. He saw the matter as a policy call. While a longer time period allowed more process, a 90-day review period in addition to 90 days to adjudicate was viewed as reasonable.

Representative Gara asked if the RCA could fairly set the recourse tariff if the period was moved down from 6 months to 90 days.

Co-Chair Stoltze viewed that two 90-day periods were better than 30 days.

Mr. Goering responded that the second 90-day suspension period provided an adequate amount of time for the parties to conduct their adversarial process with the RCA as the adjudicative body. He noted that the burden of shortening the time falls as much on the parties presenting their evidence. The process will be adjusted to allow time for the parties to present evidence and for the commission to make and issue a decision. He noted that the governor supported the language embodied in Amendment 3.

Co-Chair Stoltze pointed out that the committee and sponsors had not achieved concurrence on the issue, so he wished to allow ample time for comments and concerns.

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RENA DELBRIDGE, STAFF, REPRESENTATIVE MIKE HAWKER, explained that the sponsors were troubled with the addition of the suspension period. The sponsors were willing to extend the initial recourse tariff review period from 30 days to 90 days, which was represented in the finance CS. The sponsor understood the RCA's desire to have additional time to suspend a tariff, but both the 90-day and 180-day time periods were problematic.

Co-Chair Stoltze noted that multiple possibilities were suggested.

Representative Gara asked Mr. Goering if the RCA would have enough time to protect the consumer's right to a reasonable recourse tariff rate with the time period suggested by the amendment.

Mr. Goering clarified that the initial review period allowed RCA to talk to the pipeline carrier and work out any filing issues. The suspension period was created for controversies that remain after the 90-day review period was completed. The 90-day suspension period was an opportunity for the commission to allow interested parties, such as shippers and rate payers to intervene in the action

to test the carrier's evidence. The issues during the 90-day period were limited under the bill, as written.

Mr. Goering continued that the recourse tariff had some specific standards for its review. The standards were found on page 45 of the current CS. He mentioned specific requirements of the commission that were narrower than the usual pipeline and utility tariffs. In the case of the amendment, the commission was asked to approve or deny the tariff based on factors found in AS 42.08.350(b). The review during the initial 90 days and the 90-day suspension period was narrower than the time period typically provided by the commission with respect to tariffs.

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Representative Gara wondered if the time suggested in the Amendment 3 was adequate for determining a just and reasonable rate. He asked if the time period was adequate for evaluating whether the shipper's proposal for a tariff met the statutory requirement. He asked if the statutory requirement required a just and reasonable rate.

Mr. Goering replied that the standard for the commissions review evaluated the terms and conditions of service. The standard determined whether the terms and conditions were unduly discriminatory and whether the rates were supported by the supporting cost model. The criteria related to rates of return and depreciation methodology. The bulk of service was provided under contract, as opposed to under the recourse tariff. In answer to Representative Gara's first question, Mr. Goering stated that the process could be adjusted to accommodate the amount of time available. If a 90-day period was allowed, the parties must be prepared to present evidence sooner.

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Co-Chair Austerman pointed out that the language stated "no longer than 90 days." He interpreted that the language did not require the process to utilize all 90 days; it might be completed more quickly.

Mr. Goering concurred. He stated that the entire suspension period was optional. If, at the end of the 90-day review period, the commission determined that there was no reason to investigate the tariff further the rates would go into

effect on the dates specified in the tariff's filing. The suspension period was optional. The commission was not required to utilize the entire 90-day period to issue their decision.

Co-Chair Stoltze noted that the amendment altered the time period from 6 months to 90 days.

Representative Holmes expressed that the original time period of 30 days was too fast, while the expansion appeared reasonable to her.

A roll call vote was taken on the motion to adopt Amendment 3.

IN FAVOR: Wilson, Costello, Edgmon, Kawasaki, Holmes, Munoz, Neuman, Thompson, Austerman, Stoltze

OPPOSED: Gara

The MOTION PASSED (10/1).

There being NO further OBJECTION, Amendment 3 was ADOPTED.

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Representative Kawasaki MOVED to ADOPT Amendment 4, 28-LS0021\R.7, Nauman/Bullock, 3/28/13 (copy on file):

Page 1, line 3, following "fund;":
Insert "relating to a natural gas pipeline from Cook Inlet to Fairbanks;"

Page 3, line 2:
Delete "and"

Page 3, line 12:
Delete "state."
Insert "state; and
(4) The Alaska Gasline Development Corporation construct a natural gas pipeline to deliver Cook Inlet natural gas to Fairbanks and other communities between Cook Inlet and Fairbanks that do not have access to a natural gas pipeline, as the first phase in the development of an in-state natural gas pipeline."

Page 7, following line 11:
Insert a new paragraph to read:

"(2) notwithstanding (1) of this section, before constructing a natural gas pipeline to serve the Southcentral region of the state and other communities of the state, the corporation shall construct a natural gas pipeline to deliver Cook Inlet natural gas to Fairbanks and other communities between Cook Inlet and Fairbanks that do not have access to a natural gas pipeline;"

Renumber the following paragraphs accordingly.

Page 10, following line 15:

Insert a new subsection to read:

"(f) Before constructing a natural gas pipeline to serve the Southcentral region of the state and other communities of the state, the corporation shall plan, construct, and finance a natural gas pipeline to deliver natural gas from Cook Inlet to Fairbanks and to communities between Cook Inlet and Fairbanks that do not have access to a natural gas pipeline."

Representative Wilson OBJECTED for discussion.

Representative Kawasaki stated that the amendment addressed issues related to Fairbanks' diminished air quality and high cost of energy. The amendment stated if AGDC were to begin building a gasline, the priority ought to be providing natural gas to Fairbanks. The amendment requested prioritization of the Cook Inlet line to Fairbanks. He projected that the discussed portion of the line would cost \$2 billion.

Representative Chenault spoke to the amendment. He stated that the legislature must allow AGDC and the project to determine the priorities. He understood the need for natural gas in Fairbanks. A bill existed in the committee to bring LNG to Fairbanks within the next two years. He stated that the project in HB 4 was projected for 2019. He understood the needs and concerns of Fairbanks, but he did not believe that the legislature should direct AGDC in its_[BSW4] process. He did not support the amendment.

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Mr. Dubler stressed the importance of a compressor station in the Cook Inlet area if the amendment were to pass. The compressor station would incur an additional cost that

would not be recoverable for the entire pipeline upon completion.

Representative Wilson understood that AGDC must choose the most economical project. She wondered if the amendment would slow the project.

Mr. Dubler responded that the proposed change would require a rerouting of resources, which would potentially delay the project.

Representative Wilson clarified that Fairbanks realized that the LNG trucking solution was temporary. She assumed that a south-to-north route had been vetted in the process of project establishment.

Mr. Duber responded that the compressor station in Cook Inlet was suggested as a solution to a south-to-north route. The compressor station was not transferable to the North Slope.

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Co-Chair Stoltze asked if the amendment would complicate the regulatory process for the RCA.

Mr. Dubler responded that permits and the rights-of-way were based on the premise that the gasline would bring gas from the north to the south. Turning the gasline around would require reapplication for those permits and rights-of-way.

Representative Kawasaki asked about the AGDC pipe and its construction along the route.

Mr. Dubler deferred the question to the project manager. He pointed out the project's logistical challenges.

DAVID HAUGEN, PROJECT MANAGER, ALASKA GASLINE DEVELOPMENT CORPORATION (via teleconference), asked Representative Kawasaki to repeat the question.

Representative Kawasaki asked about the different points along the gasline where construction would occur.

Mr. Haugen responded that the complicated project proposed in HB 4 would have four separate spreads on the mainline,

with additional spread for the Fairbanks lateral. In each case, the individual spreads would encounter seasonal constraints. The scheduling process was elaborate. He stated that results of the planning would be presented to the legislature to further explain the planned execution of the project.

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Representative Kawasaki disagreed with the statement that the legislature did not want to direct AGDC in the building or planning process. He believed that the legislators had the capacity to contribute to the planning process.

A roll call vote was taken on the motion to adopt Amendment 4.

IN FAVOR: Gara, Kawasaki
OPPOSED: Holmes, Munoz, Neuman, Thompson, Wilson,
Costello, Edgmon, Austerman, Stoltze

The MOTION FAILED (2/9).

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Representative Gara MOVED to ADOPT Amendment 5, 28-LS0021\R.4, Bullock, 3/28/13 (copy on file):

Page 35, line 26:
Delete "AS 42.08.320(b) - (d)"
Insert "AS 42.08.320(b) - (c)"

Page 42, lines 25 - 29:
Delete "(1) conclude that a precedent agreement or related contract negotiated at arm's length between the parties is just and reasonable unless the commission finds that unlawful market activity affected the rate or unfair dealing, such as fraud or duress, affected the formation of the contract;
(2)"

Page 43, lines 6 - 15:
Delete all material.

Reletter the following subsection accordingly.

Page 43, line 16:

Delete "If a precedent agreement or related contract is not arm's length, the"
Insert "The"

Page 43, lines 18 - 21:

Delete "normally applied under AS 42.06.140. If the commission is reviewing a precedent agreement under (c)(2) of this section, the commission may consider the in-state natural gas pipeline carrier's approved recourse tariff, including the cost data underlying that tariff"

Insert "applied under AS 42.06.140"

Co-Chair Stoltze OBJECTED for discussion.

Representative Gara explained that the amendment addressed costs that consumers would pay for natural gas. He explained that transportation costs would comprise the majority of consumer costs. He stated that the RCA communicated to the pipeline company that they could have a fair return on their tariff. He quoted AS 42.06.140 allowing the RCA the power to require just, fair, and reasonable rates. A reasonable profit could be estimated at 10 to 14 percent. He stated that HB 4 removed that standard.

Representative Gara stated that the consumer protection agency's power to require a just and reasonable rate would be eliminated and replaced by the language on page 43 of the bill. He explained that page 43 outlined the process following the establishment of the recourse tariff. The parties would create their own rate, as stated on line 9. The standard for setting the rate for consumers was not a fair price. Instead, if the parties were not affiliated, the price would go into effect, barring collusion. He feared that the two parties would not have the consumer's interest at heart. The pipeline builder would hope to earn ample profits and were exempt from the rule stating that rates must be just and reasonable.

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Representative Gara continued to elaborate on Amendment 5. He stated that the passage of HB 4 would eliminate competition for another project and allow a pipeline owner to charge as much as they could get away with. He claimed that the producer would also be able to charge an

exorbitant amount without an agency to determine the just and reasonable rate. Amendment 5 requested that the regulatory statute, AS 42.06.140 remain in place. He hoped for Alaska consumers to pay just and reasonable rates.

Representative Gara noted that other states sometimes relaxed the standards, which encouraged competition. Competition would eliminate the need for the standard, but Alaska required the regulations. Otherwise companies would establish prices on their own and the prices would be approved by the RCA unless collusion was proven. He stated that monopolies led to high prices and without the statute AS 42.06.140, the parties would pay more for natural gas. He believed that the bill would be stronger with the added protection of the statute.

Representative Gara explained that the language in Amendment 5 restated the original statute.

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Ms. Delbridge responded that the sponsors were opposed to the amendment. She clarified that the RCA would continue to determine just and reasonable rates in the bill before the committee. The language supporting her statement was found multiple times on page 42 and 43. She noted the sponsor's desire to ensure that rates were deemed just and reasonable, however, the standard in the CS was different. The new standard would honor the ability of two parties to freely enter into an agreed upon price.

Ms. Delbridge continued that the RCA reviewed contracts at a higher level. She mentioned the bill's checks and balances designed to moderate the prices. She noted that recourse tariff must have all costs disclosed. A reasonable rate of return, capital structure, and depreciation method would be set on the pipeline, which would prohibit the massive profits and extraordinarily high prices. People will be able to negotiate the rates for long-term shipping contracts.

Ms. Delbridge pointed to page 51 of the bill where the triennial reports were addressed. Upon pipeline completion, the carrier must revisit the RCA to submit current cost data. The RCA would then ensure that the rate of return earned was allowable. If the rate of return was greater than the allowable amount, the funds would be redirected to

a segregated operating reserve fund to address revenue shortfalls in future years. The fund must equal 20 percent of the annual average operating cost. Excess profit would pay down rates of the contractual shipper.

Co-Chair Stoltze asked Mr. Goering to comment.

Mr. Goering did not have any remarks. He was available for questions.

Representative Gara did not want people to get confused. He explained that Ms. Delbridge discussed the recourse rate, which would probably not apply. He directed attention to page 43, line 8 of the legislation related to the recourse tariff. He stated that page 9 clarified that the recourse tariff was not enforceable. He questioned the applicable standard, if a company chose not to use the recourse tariff. If the parties were not affiliated, collusion was the only applicable factor. He argued that the bill lacked a requirement that the price be reasonable and fair for the protection of consumers. The only standard, in that circumstance, was that the parties did not engage in illegal conduct.

He argued that the existing law stated that the price should be just and reasonable according to the RCA. He stressed that the project would result in a monopoly pipeline and consumers would not have options. He agreed with Ms. Delbridge's statements about the recourse tariff, but he worried that companies were not mandated to use it.

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Representative Gara stated that the policy would lead to higher gas prices for Alaskans. He believed that the language in the CS did not hold the companies to just and reasonable tariffs.

A roll call vote was taken on the motion to adopt Amendment 5.

IN FAVOR: Gara, Kawasaki

OPPOSED: Munoz, Neuman, Thompson, Wilson, Costello, Edgmon, Holmes, Stoltze, Austerman

The MOTION FAILED (2/9).

2:43:08 PM

Representative Gara MOVED to ADOPT Amendment 6, 28-LS002\R.10, Bullock, 3/30/13 (copy on file):

Page 1, line 3, following "fund;":

Insert "allowing the legislature to consider disallowing an in-state natural gas pipeline project;"

Page 10, following line 15:

Insert a new subsection to read:

"(f) The corporation or other person may not start construction of an in-state natural gas pipeline developed by the corporation without presenting details of the project to the legislature. The legislature shall have 60 days during a legislative session to decide whether to disallow the project as proposed."

Co-Chair Stoltze OBJECTED for discussion.

Representative Gara explained that the amendment allowed for public notice of the gas pipeline project including 60 days during a legislative session to review the project. If the legislature approved or failed to disapprove the project, within the 60-day time period, the project would continue as planned.

Representative Gara suggested that the state might be faced with another gasline proposal in the future. He opined that the limitations of the pipeline proposed in the bill might be countered by another project utilizing a larger pipeline. He stated that a larger pipeline would mean less expensive gas for Alaskans.

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Representative Gara felt that a larger pipeline was in the best interest of Alaskans. He pointed out that a larger pipeline would lead to further exploration on the North Slope, which would lead to joint oil and gas fields. He proposed that better options might be available when the project gets to open season. He believed that the public had the right to review the project.

Co-Chair Stoltze appreciated the discussion.

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REPRESENTATIVE MIKE HAWKER, SPONSOR, believed that the amendment grossly mischaracterized the bill. He opined that the amendment implied that the bill would strategically cause problems for the consumer by inflating costs for a project that was not in the best interest of Alaskans. He disagreed with the assumptions because many controls were incorporated into the legislation.

Representative Hawker discussed the sponsors' objectives to initiate a gasline project. He stated that every possible project was halted by a government process and a changing of directions. He mentioned the policy objective of minimizing future government interference in the business decisions required to move the project forward. A project would move forward, under the proposed legislation if it was backed by a market-based transaction. Statutory obligations were provided for AGDC regarding their approach to a market-based transaction. The obligation included providing gas to Alaskans at the least possible cost.

Representative Hawker continued to explain that a viable project would proceed only with backing from commitments from third-party shippers. Without the commercial transactions, the legislature had the opportunity to revisit the projects. He opined that the state would benefit from the initiation of an Alaska gasline project. The state must invest money to support the design and development of the project.

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Representative Hawker furthered that the legislature would continue to have authority of spending. He heard further mischaracterizations about the project and information brought forward in the base case analysis. He stated that the maximum price of gas was the price that the state would pay to import LNG overseas. He pointed out that Alaskan utilities were exploring the import options. The import option was explored because utilities were concerned that the project proposed in the legislation would not come to fruition.

Representative Hawker suggested that interjecting delays, politics, and market uncertainty also interjected

additional costs. With the proposed legislation, the legislature would retain adequate checks and balances. He pointed out that the passage of the bill would not compromise a larger pipeline project. If a larger pipeline project was proposed, AGDC would have an obligation to proceed with the project.

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Vice-Chair Neuman spoke to the amendment. He pointed out the first line "the corporation or other person may not start construction of an in-state natural gas pipeline developed by the corporation without presenting details of the project." He pointed to page 10, subsection (e) of the legislation and the mention of reports to the legislature in the event of a firm transportation agreement. Without a successful open season, the fiscal note would not extend enough funds to proceed without revisiting the legislature. He sincerely hoped that Alaska would have enough gas for two pipelines.

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Representative Wilson asked if the amendment pertained only to a private company wishing to fund the entire project.

Representative Hawker interpreted that the amendment spoke about the corporation or other person moving forward with a project. He believed that if the corporation were successful and handed the project over to a private entity, the project would require review from the legislature.

Representative Wilson asked about any company that would fund the project if it was not deemed economical.

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Representative Chenault discussed the Stranded Gas Development Act. He recalled that the Act required 20 percent ownership by the state. The project was projected to cost \$40 billion. He stated that the legislators had responsibility for appropriating money beyond the funds approved in the legislation.

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Representative Gara stated that the project would return to the legislature if it required a state subsidy. He recalled testimony by Mr. Dubler regarding realistic scenarios in which AGDC would not require additional funding and legislative oversight would cease. The public would then cease to have input. He asked if a provision in the bill stated otherwise.

Representative Gara pointed out the "prefinding" on page 37 stating that the project was in the state's best interest, which was the last opportunity for legislative approval barring the need for state subsidy.

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Representative Gara understood that the project would return to the legislature if it required state subsidy. The legislature must consider the issue. He noted Mr. Dubler's testimony that AGDC might not require additional state funding. If AGDC does not return to the legislature for additional funding, the approval would not be necessary, eliminating the avenue for public and legislative approval. He pointed out page 37 and the claim that the project would serve the state's best interest despite the fact that the details were unknown.

Representative Gara wished for public review because of the lack of consumer protection stating that the tariff must be just and reasonable. He believed that parties would choose appropriate gas prices if they were prepared for public and legislative project review. He expressed concern that passage of the bill would provide final legislative approval for an unknown project.

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Co-Chair Stoltze discussed the painful agony of dealing with the Stranded Gas Act in committee.

A roll call vote was taken on the motion to adopt Amendment 6.

IN FAVOR: Gara, Kawasaki

OPPOSED: Neuman, Thompson, Wilson, Costello, Edgmon, Holmes, Munoz, Austerman, Stoltze

The MOTION FAILED (2/9).

Representative Gara MOVED amendment 7, 28-LS002\R.9, Bullock, 3/29/13 (copy on file):

Page 1, line 3, following "fund;":
Insert "requiring legislative approval for the transfer of certain interests in an in-state natural gas pipeline project;"

Page 7, line 21, following "may":
Insert ", subject to (f) of this section,"

Page 8, line 10, following "(6)":
Insert "subject to (f) of this section,"

Page 10, following line 15:
Insert a new subsection to read:
"(f) The corporation may not enter into an agreement with another person for joint ownership of an in-state natural gas pipeline developed by the corporation or transfer or otherwise dispose of all or part of an in-state natural gas pipeline project developed by the corporation without legislative approval."

Co-Chair Stoltze OBJECTED for discussion.

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Representative Gara discussed Amendment 7. He noted a circumstance in the legislation where AGDC could transfer the project to a private company. He noted representations over the years where the tariff would reflect the state investment allowing the consumers to benefit from it. Amendment 7 would ensure that if the project was transferred to a private party, the legislature would participate. He planned to withdraw the amendment in committee, but would bring it to the House Floor.

Representative Gara WITHDREW Amendment 7.

Ms. Delbridge clarified that AGDC could manage its assets including transferring or disposing in conjunction with the duty of bringing gas to Alaskans at the lowest possible rates. The upfront investment made by the state could be reflected in the tariffs with long-term contracts if they were signed prior to transferring the project to the

private sector. During the transfer process, different methods of negotiating the highest value at that point in time for the state's investment existed. The bill allowed the flexibility for determination of the highest value for Alaskans.

Mr. Dubler added that AGDC was governed by a board of directors appointed by the governor. Having the ability to acquire and dispose of assets was enjoyed by most state corporations without legislative approval.

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Representative Gara clarified Ms. Delbridge's statement that AGDC must get gas to consumers at the lowest possible rate, which he considered non-binding language. He stated that the binding language on the tariff stated that just and reasonable rates were not required. He asked about binding language regarding delivery of gas at the lowest possible rates.

Ms. Delbridge responded that the language found on page 7, lines 4 through 17 was considered somewhat binding, "they shall to the fullest extent possible advance this gas pipeline and develop these gas pipelines in the future that make gas available at the lowest possible rates." She agreed with Mr. Dubler that the board of directors represented commissioners of the state. The board was accountable to the public. The legislation required greater thresholds of votes on the board for a transfer or disposal of property. She clarified that the recourse tariff must meet particular standards, but negotiations would often be lower, meaning that public utilities would get a better deal than that approved by the RCA as the default tariff price.

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Co-Chair Austerman discussed a new fiscal note dated 4/01/13, which changed the requested amount from \$330 million to \$225 million and adjusted the \$225 million out of the Alaska Housing Capital Corporation. An additional \$25 million would be derived from the capital budget for the project.

Representative Gara understood that the appropriation of \$225 million from the Alaska Housing Capital Corporation

and the \$25 million from the capital budget were from the same funding source.

Co-Chair Stoltze explained the intent of retaining sufficient funds to ensure forward progress for the bill. He stated that the total appropriation was \$250 million.

Co-Chair Austerman noted the discussion regarding the desire for another approval from the legislature. He opined that HB 4 allowed the opportunity to move forward with an instate gasline. He stated that an additional \$80 million would be required to complete the remainder of the work. He believed that further conversation would occur, possibly regarding the supplemental budget.

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Vice-Chair Neuman MOVED to REPORT CSSSHB 4(FIN) out of committee, as amended with individual recommendations and the accompanying fiscal notes. Representative Gara OBJECTED for discussion.

Representative Gara believed that despite his objections and amendments, he advocated for moving ahead with the bill and the project. His amendments were an effort to communicate his point of view. He opined that gas exploration in Cook Inlet might be advantageous. He advocated for the governor's project, which included a large-diameter pipeline. He noted that the extra income and development along with a lower cost of gas made the large-diameter pipeline appealing. He hoped that his statements were not mischaracterized. He stressed that the state would benefit from forward progress with multiple pipeline options.

Representative Gara stated that he had not received a good reason why the RCA could not retain its power to ensure that the shipping price was just and reasonable. He argued that the statement that the bill would result in the lowest possible prices was a statement of purpose. He considered language on page 43 of the bill binding language, which specified that if the parties did not use the recourse tariff set by the RCA they could come up with whatever price for shipping they want.^[BSW5] He stated that the bill was drafted in a manner that did not protect consumer rates as well as it could. He clarified that he did support a gas

pipeline project, but preferred a bill that was drafted in the consumer's best interest.

Representative Gara WITHDREW his OBJECTION.

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Vice-Chair Neuman believed that Amendment 3 addressed the issue by adding an additional 90 days if the recourse rates were not agreed upon. He added that the proposed legislation moved AGDC's project, while other projects and opportunities for exploration were occurring in tandem.

Vice-Chair Neuman clarified the committee's intention to adopt two [new] fiscal notes: one note with OMB component number 3019 and a second note dated 4/1/13 [the second note did not include an OMB component number].

CSSSHB 4(FIN), as amended was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the House Finance Committee for Fund Capitalization and one new fiscal impact note from the House Finance Committee for Various departments including Department of Law, Department of Natural Resources, Department of Environmental Conservation, Department of Transportation and Public Facilities, and Department of Commerce, Community and Economic Development.

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ADJOURNMENT

The meeting was adjourned at 3:27 p.m.