

HOUSE FINANCE COMMITTEE  
April 4, 2013  
9:01 a.m.

9:01:33 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:01 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

Ted Leonard, Executive Director, Alaska Industrial Development and Export Authority, (AIDEA), Department of Commerce, Community and Economic Development; Sarah Fisher-Goad, Executive Director, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Nick Szymoniak, Project Economist, Alaska Energy Authority (AEA), Department of Commerce, Community and Economic Development.

SUMMARY

HB 74 AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

HB 74 was HEARD and HELD in committee for further consideration.

CSSB 23(FIN)

AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

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

#hb74

#sb23

HOUSE BILL NO. 74

"An Act relating to development project financing by the Alaska Industrial Development and Export Authority; relating to the dividends from the Alaska Industrial and Export Authority; authorizing the Alaska Industrial Development and Export Authority to provide financing and issue bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."

CS FOR SENATE BILL NO. 23(FIN)

"An Act relating to development project financing by the Alaska Industrial Development and Export Authority; relating to the dividends from the Alaska Industrial Development and Export Authority; authorizing the Alaska Industrial Development and Export Authority to provide financing and issue bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."

9:02:20 AM

TED LEONARD, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, (AIDEA), DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, shared that HB 74 would allow AIDEA to provide project financing for projects that not owned and operated by the authority. He listed the beneficial reasons for providing AIDEA with the ability to use project financing without ownership:

- It more closely matches AIDEA's financing tools with the nature of the projects being financed, and is more consistent with public policy supporting economic development finance programs.

- It reduces complexity, cost and time involved in structuring financings
- It provides AIDEA (and the state) more protection from possible risk and liabilities associated with projects being financed
- It can improve overall economics of financings by more closely aligning ownership with potential tax benefits.

Co-Chair Stoltze queried the types of projects that could be undertaken under HB 74.

[9:05:37 AM](#)

Mr. Leonard listed the projects for which the new financing tool could be used:

- Industrial development as opposed to commercial real estate
- Oil and gas
- Minerals and mining
- Infrastructure development (ports, roads, etc.)

Mr. Leonard relayed that a mining development on Prince of Whales Island could provide the opportunity to invest in a separation plant used in harvesting rare earth minerals. He stressed the importance of developing the rare earth minerals unique to the state. Additionally, mining facilities in Ketchikan were under consideration which would provide high paying jobs for the area. He relayed that AIDEA did not need to have control of the projects through ownership, but would be important for economic development in the region.

Co-Chair Stoltze noted that Co-Chair Austerman joined the meeting.

Mr. Leonard furthered that as AIDEA started assisting smaller independent companies in oil and gas production, the authority could be involved in the production facilities for those projects. He felt that the main benefit the authority could provide would be assistance in resource development for projects. The authority would also gain the ability to partner with Alaska banks on energy projects.

Representative Kawasaki asked what affect combining the two bills would have on the AIDEA trucking project.

[9:08:31 AM](#)

Mr. Leonard replied that the direct financing would probably not have an effect on the financing of a production facility. He stated that there was a \$20 million to \$40 million gap in financing. The direct financing may have the ability to assist; it was not designed to do so. The financing could additionally assist in any spin-off facility once gas was flowing to the interior.

Representative Kawasaki noted that the original SB 23 and HB 74 had specific economic for the project to move forward as an interior trucking proposal. He queried what the economics would look like if the current versions of SB 23 and HB 74 passed separately.

Mr. Leonard believed that the economics would remain the same under either the house or the senate versions. The authority believed there were plenty of reasons in the rate of return for the private sector to be involved in the production facility on the North Slope. He furthered that the intent of the legislation was to authorize \$275 million to provide financing for the project.

Representative Wilson clarified that HB 74 had been on AIDEA's radar before SB 23.

[9:11:11 AM](#)

Mr. Leonard responded that HB 74 had been under discussion some time.

Co-Chair Stoltze agreed.

Mr. Leonard continued that the authority had been exploring ways to modernizing its tools in an effort to have a vehicle to partner with financial institutions and find better ways to match financing to projects.

Representative Wilson understood that the bill would provide another tool for AIDEA to assist the state in order diversify the economy beyond the oil industry.

Mr. Leonard replied in the affirmative.

9:12:17 AM

Vice-Chair Neuman understood that the legislation would not only add benefits to the North Star Borough School District by reducing costs but beyond to the Ambler Mining District and further into western and northwestern Alaska. He probed how many more positive economic opportunities throughout the state could be derived from passage of the legislation.

Mr. Leonard answered that the authority did not have exact numbers for benefits outside of bringing down the price of heating oil, and the equivalent of diesel, by approximately 50 percent, which would have a beneficial effect for mining as the state switched over and began using LNG for industrial needs.

Co-Chair Stoltze clarified that the bill would not bring down the cost of fuel but would provide an alternative.

Mr. Leonard continued that it would also provide an alternative to expensive fuels for Alaskan's to use in mining operations.

Vice-Chair Neuman asked whether the gas treatment facility could be moved in order to be used in different locations.

Mr. Leonard replied that the plant could be moved and could be located to wherever it would be most beneficial.

Representative Thompson asked for clarification on which bill was being discussed.

Co-Chair Stoltze replied that HB 74 and SB 23 were being heard in conjunction.

Representative Gara referred to the authority's work to spur economic development over time. He asked whether there was any danger of AIDEA backing too many projects and risking fiscal stability.

Mr. Leonard replied in the negative. He believed that the bill would allow for more leverage and more investment from private investors. The entity had strong cash flows and had an investment capacity of approximately \$400 million.

Representative Gara asked for a list of projects, including potential projects, the entity had helped to finance over the past five years.

[9:17:17 AM](#)

Mr. Leonard stated that the information would be provided to the committee.

Co-Chair Austerman mentioned HB 4, which would potentially bring the gas pipeline to tidewater and beyond. He wondered if the authority would be interested in a project similar to the one suggested by HB 4.

Mr. Leonard believed that the type of project in HB 4 would fall under AIDEA's purview. He added that AIDIA could not be involved in the financing of an in-state pipeline.

SARAH FISHER-GOAD, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, replied that the trucking of the LNG to the Fairbanks area, not propane, was the economic driver of SB 23. However, propane would be a byproduct and AIDEA anticipated that the plant would provide propane to approximately 1800 homes. The entity had committed to look at opportunities to provide propane, and other gas less expensive than diesel, to other regions of the state. She stated that the micro LNG concept was an emerging technology that the authority was exploring, but the potential was really for propane. She furthered that the project did not necessarily provide enough propane for all outlying communities. If there was propane in a larger volume through the pipeline project the authority planned to analyze the business structure and economics that would be needed for a propane conversion that would benefit the most communities.

Co-Chair Stoltze surmised that the propane project would only provide to off the grid Interior communities.

Ms. Fisher-Goad answered that initially that would be the case.

Co-Chair Stoltze understood that the authority had other tools for eventual expansion.

Ms. Fisher-Goad responded that the legislation would expand the opportunities for more communities to have a gas rather than diesel in the future. The authority boasted a strong technical team to develop the economics as well as technical engineers with experience in rural Alaska. Additionally, much work had been done by other state entities that AIDEA would be referencing as the project progressed.

[9:23:35 AM](#)

Co-Chair Austerman asked whether there was work that would occur with Alaska Gasline Development Corporation (AGDC). He queried the compatibility between propane and a major pipeline.

Ms. Fisher-Goad replied that the information that the authority would be gathering would be valuable to AGDC. The authority intended to follow up with the AGDC.

Co-Chair Austerman understood that there was a limited amount of propane that would move down the possible pipeline offered in HB4. He assumed that in order to make more space for gas in the line, propane would be extracted on the North Slope.

Co-Chair Stoltze believed that the number was 3,500 barrels per day of propane in the proposed gasline.

Vice-Chair Neuman understood that approximately 25 percent of the gas produced in Prudhoe Bay was LNG. Of the 2.5 bcf of LNG per day, half would be propane. He believed that HB 4 diminished the ability to handle propane, but if there was a demand for propane after the open season the specifics of the project could be changed.

[9:26:36 AM](#)

Co-Chair Austerman asked if there would be a plant at the North Slope end of the pipeline that would extract propane and LNG.

Vice-Chair Neuman replied in the affirmative.

Co-Chair Austerman asked if the two projects were compatible.

Vice-Chair Neuman replied that currently the gas-treatment facility in Prudhoe Bay did process propane. He stated that there was compatibility between the two projects. The facility was mobile and could be used in multiple areas of the state.

Ms. Fisher-Goad interjected that the authority's role in the project's development was to determine whether there was a market and more demand for propane. The trucking proposal in the liquefaction plant would provide a limited amount of propane. She spoke to compatibility with the in-state pipeline. The distribution system that would be partially financed by AIDEA, through SB 23, would provide a distribution system that could be served by a pipeline in the area. The liquefaction plant would be a modular system that could be used in other areas. She stated that the LNG trucks would be replaced by the pipeline and that the economic structure needed to be in place to make propane a viable, low cost fuel resource for other areas.

9:30:08 AM

Co-Chair Austerman restated his question. He wondered why two plants were needed.

NICK SZYMONIAK, PROJECT ECONOMIST, ALASKA ENERGY AUTHORITY (AEA), DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, answered that the scale of the two liquefaction plants was very different. The plant associated with the in-state pipeline would be considerably larger. If the pipeline was built the authority planned to relocate their line somewhere along the larger line, but the smaller plant under discussion would not be able to replace that LNG plant expected for exports.

Co-Chair Austerman asked why the gas could not come from the pipeline liquefaction plant proposed in HB 4.

Mr. Leonard believed that the gas treatment plant for an in-state pipeline would only treat the gas before it went through the pipeline. The plant in SB 23 involved gas treatment, but was mainly utilized to liquefy gas. One of the compatibilities with the in-state pipeline was that it could be customer to the in-state pipeline if it were to be moved down to Fairbanks where gas could be taken off the pipeline, liquefied and then transported to interior communities.

[9:32:15 AM](#)

Mr. Szymoniak replied that the two projects would serve different demands. The LNG export plant with the pipeline would serve primarily the export license. He stated that on the demand side, the infrastructure, technology and study needed to integrate the fuels would be the same for the coastal communities that could be served by an LNG plant coming off of the pipeline, as it would with the authority's LNG plant. The effort was to understand in parallel the potential demand moving forward.

Vice-Chair Neuman added that the business plan in the legislation stood alone and would be independent of whether another pipeline project moved forward or not.

Representative Holmes pointed to SB 23. She understood that the short term goal of the project was to get relatively clean and inexpensive gas to the Interior. She wondered if the bill would provide more affordable gas to the Interior than the alternative of importing LNG.

Ms. Fisher-Goad responded that with respect to having the needs of the Interior served by an import, the authority did not have anything to use as a model. Currently, Fairbanks natural gas had supply arriving from Cook Inlet and trucking up north; however, the gas supply had not been there enough to have that particular model expanded, so no comparison had been done. In planning for trucking from the North Slope the authority drew information from two entities that had existing long term gas contracts, at a range and a cost that was known, as well as estimates and the cost structure of a plant which illustrated that a reduction in the cost for heating could be made in interior Alaska through the plan that was presented in SB 23. There were unknowns concerning whether there was an alternative that would be less expensive.

Representative Wilson surmised that the propane would be available to whoever wanted to buy it. It might end up in rural areas, but only if those that bought it brought it there.

[9:37:48 AM](#)

Mr. Szymoniak replied in the affirmative. He anticipated that the propane would initially be used in the surrounding

parts of Fairbanks, but the authority was working to provide propane to rural Alaska.

Representative Wilson wondered if it would be possible for communities surrounding Fairbanks to take advantage of the storage tax credit and develop a system similar to that of North Pole.

Mr. Szymoniak answered in the affirmative.

Representative Wilson stressed that the project had great growth potential outside of Fairbanks.

Representative Gara said that the original HB 4 had been designed to have one or two extra straddle plants, was made of thicker pipe, and had the goal of producing propane in large amounts that could be shipped and that that part of the project had since been removed. He asserted that the communities in rural Alaska would end up paying the extra cost to add the infrastructure on the pipeline to produce the propane.

Mr. Szymoniak answered that he could not speak to the makeup or operation of the pipeline discussed in HB 4. He said that the authority was currently working to better understand the potential demand for the propane gas that could come off of a pipeline; the cost of producing propane off of the pipeline was not being examined.

Representative Gara understood that the pipeline was not going to be able to handle as much pressure or propane from the North Slope down to Fairbanks. He wondered if a change would need to be made in order to ship propane to rural communities.

[9:41:10 AM](#)

Mr. Szymoniak reiterated that he could not speak to HB4. He reminded the committee that the authority was limited to understanding the propane demand that could exist in rural Alaska. He stated that the authority was not dependent upon AGDC or the propane strip coming off of the pipeline proposed in HB 4.

Representative Edgmon wondered if the issue was going to be raised by the AEA during the upcoming rural energy conference.

Ms. Fisher-Goad replied that she would get back to the committee on the agenda for the energy conference.

Representative Edgmon believed that it was important that people in rural Alaska got involved in the conversation during the early stages of the project.

[9:44:05 AM](#)

Co-Chair Stoltze solicited public testimony.

Representative Thompson appreciated the conversation surrounding HB 74 and SB 23. He noted that the two bills were separate ideas that stemmed from the same piece of legislation. He shared that the trucking portion had been removed from HB 74 and that SB 23 directed the interior energy problems.

Co-Chair Stoltze CLOSED public testimony on HB 74.

HB 74 was HEARD and HELD in committee for further consideration.

CSSB 22(FIN) was HEARD and HELD in committee for further consideration.

#  
ADJOURNMENT

[9:47:45 AM](#)

The meeting was adjourned at 9:47 a.m.