

**ALASKA STATE LEGISLATURE  
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

February 8, 2013

3:33 p.m.

**MEMBERS PRESENT**

Representative Kurt Olson, Chair  
Representative Lora Reinbold, Vice Chair  
Representative Charisse Millett  
Representative Dan Saddler  
Representative Andy Josephson

**MEMBERS ABSENT**

Representative Mike Chenault  
Representative Bob Herron

**COMMITTEE CALENDAR**

CONFIRMATION HEARING(S):

Department of Labor & Workforce Development, Commissioner

Dianne Blumer, Commissioner - Juneau

- HEARD

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."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 74

SHORT TITLE: AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/16/13	(H)	READ THE FIRST TIME - REFERRALS
01/16/13	(H)	L&C, FIN

02/08/13

(H)

L&C AT 3:15 PM BARNES 124

**WITNESS REGISTER**

DIANNE BLUMER, Commissioner

Department of Labor & Workforce Development (DLWD)

Juneau, Alaska

**POSITION STATEMENT:** Testified as appointed commissioner during her confirmation hearing.

TED LEONARD, Executive Director

Alaska Industrial Development & Export Authority (AIDEA)

Department of Commerce, Community & Economic Development (DCCED)

Anchorage, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 74.

MARK DAVIS, Deputy Director

Alaska Industrial Development & Export Authority (AIDEA)

Department of Commerce, Community & Economic Development (DCCED)

Anchorage, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 74.

GENE THERRIAULT, Deputy Director

Statewide Energy Policy Development

Alaska Energy Authority (AEA)

Department of Commerce, Community & Economic Development (DCCED)

Anchorage, Alaska

**POSITION STATEMENT:** Answered questions during the discussion of HB 74.

JOMO STEWART, Energy Project Manager

Fairbanks Economic Development Corporation (FEDC)

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 74.

REPRESENTATIVE T. WILSON

Alaska State Legislature

Juneau, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 74.

**ACTION NARRATIVE**

[3:33:42 PM](#)

**CHAIR KURT OLSON** called the House Labor and Commerce Standing Committee meeting to order at 3:33 p.m. Representatives Reinbold, Millett, Saddler, Josephson, and Olson were present at the call to order.

**Confirmation Hearing(s):**  
**Department of Labor & Workforce Development**

[3:34:04 PM](#)

CHAIR OLSON announced that the first order of business would be the confirmation hearing: Department of Labor & Workforce Development, Commissioner Dianne Blumer.

[3:35:00 PM](#)

DIANNE BLUMER, Commissioner, Department of Labor & Workforce Development (DLWD), provided her background, including her state service. She stated that she was appointed by Governor Parnell on May 17, 2012; is a life-long Alaskan, who has lived in Craig, Ketchikan, Sitka, and Juneau. She began working for the state Department of Transportation & Public Facilities (DOT&PF), Alaska Marine Highway System in 1990. She transferred to the Department of Administration (DOA), and worked in labor relations and personnel. She moved to Southcentral Alaska about seven years ago, and worked as the deputy director for DOA's Personnel and the Department of Revenue (DOR), Child Support Division. She also worked in the governor's office as a policy advisor for the DOA, Department of Commerce, Community & Economic Development (DCCED), and the Department of Revenue (DOR) until May.

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REPRESENTATIVE JOSEPHSON asked for Commissioner Blumer's position on the governor's proposal to reduce the unemployment insurance trust fund. He understood the governor has found the Unemployment Insurance (UI) fund to be solvent and contributions could be decreased. He further asked whether she agreed with that position.

COMMISSIONER BLUMER answered yes. She said she has some talking points she is willing to share with the committee. She reiterated she supports the governor's position.

CHAIR OLSON remarked the bill would likely come before the committee for the initial hearing before the legislature.

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REPRESENTATIVE JOSEPHSON asked whether an argument might exist that since Alaska's economy did not suffer a recession in 2007 and 2008, the UI contributions should not be decreased since it would be more difficult to increase them during a subsequent recession.

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COMMISSIONER BLUMER responded, in reality, the proposed bill would only allow the commissioner of the DLWD to suspend, in part or in all, the proposed increase. Currently, she understood the tax base is 3.32 percent. If the proposed bill passes the legislature then the commissioner would meet with the actuary next year to determine the percentage of the increase and not on the actual tax base.

REPRESENTATIVE JOSEPHSON pointed out prior problems with actuaries' predictions relative to the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) and suggested caution.

COMMISSIONER BLUMER related she will have information for the committee.

REPRESENTATIVE REINBOLD said she has been impressed with the department's follow-up to questions. She thanked the commissioner.

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REPRESENTATIVE SADDLER asked the commissioner to identify areas in which the workforce development is working and to identify areas that need improvement.

COMMISSIONER BLUMER answered that she most proud of wonderful "Youth First" program, as well as several other programs that help develop leadership skills.

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REPRESENTATIVE SADDLER asked for most effective programs.

COMMISSIONER BLUMER offered her belief the most effective training programs are grants, in which the department is working with industry, such as the mining program with the University of Alaska Southeast (UAS). She explained that the program is extremely successful since industry is involved from the

beginning. She related that when students complete the course they are ready to work for the employer.

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REPRESENTATIVE SADDLER asked Commissioner Blumer to identify the least effective program.

COMMISSIONER BLUMER said the department works with grantees. She said she enjoys the DLWD and finding the right jobs for people. She said she did not encounter anything at the department that she does not enjoy.

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CHAIR OLSON asked about training program for the homebuilders and training for high school seniors.

COMMISSIONER BLUMER answered that the department works with the construction academy. She was unsure of the success rates, but the program is extremely popular. She reported the department will soon recognize and award businesses who have been extremely successful in getting people trained and into the construction workforce.

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CHAIR OLSON said success rate is above 90 percent. He commended the commissioner on the construction academy, noting he has heard specific success stories, and he characterized it as pretty impressive.

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REPRESENTATIVE MILLETT said she has known Ms. Blumer on a personal and professional level. She was working as a special assistant and legislative liaison to the Department of Administration (DOA) when she began working with Dianne Blumer. At the time, Ms. Blumer was working for labor relations, negotiating labor agreements. She considered her a mentor. She characterized Ms. Blumer as someone with excellent expertise in labor relations and personnel, but is also someone who has a pragmatic, realistic idea of labor relations, job outlooks, and forecasts. She commended the working relationships Commissioner Blumer has developed with the unions. She related the commissioner has forged professional relationships. She said she has the utmost confidence that Governor Parnell has picked

the right person to serve as commissioner. She commended the commissioner's knowledge and follow through. In conclusion she said she is fully behind this appointment and has worked with Commissioner Blumer for eight years in several capacities.

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CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on the confirmation for Dianne Blumer as commissioner for the Department of Labor & Workforce Development (DLWD).

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CHAIR OLSON reminded members that signing the reports regarding appointments to boards and commissions in no way reflect individual members' approval or disapproval of the appointees, and that the nominations are merely forwarded to the full legislature for confirmation or rejection.

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CHAIR OLSON moved to advance the confirmation of Diane Blumer, appointee as commissioner of the Department of Labor & Workforce Development to the joint session for consideration. There being no objection, the confirmation was advanced.

The committee took an at-ease from 3:49 to 3:53 p.m.

**HB 74-AIDEA: LNG PROJECT; DIVIDENDS; FINANCING**

[3:53:01 PM](#)

CHAIR OLSON announced that the final order of business would be 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."

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TED LEONARD, Executive Director, Alaska Industrial Development & Export Authority (AIDEA), Department of Commerce, Community, & Economic Development (DCCED), introduced himself.

MARK DAVIS, Deputy Director, Alaska Industrial Development & Export Authority (AIDEA), Department of Commerce, Community, & Economic Development (DCCED), introduced himself.

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MR. LEONARD stated that HB 74 consists of three parts. The first part would allow Alaska Industrial Development and Export Authority (AIDEA) to provide financing for a project it does not intend to own or acquire. The bill would allow AIDEA to continue work with the legislature, and the administration in modernizing its tools. This bill would allow AIDEA to leverage more of its investment by encouraging private sector development. He explained this would also allow AIDEA to own a project through a limited liability corporation (LLC), which would give AIDEA more protection on its natural resources projects. To summarize, this bill would provide AIDEA with the least amount of risk when financing a project in which AIDEA is lending money but will not own the project. In conclusion, this tool could help protect AIDEA's assets as a lender and part owner, especially as AIDEA becomes more involved in helping to finance natural resources' projects.

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MR. LEONARD said the second part of HB 74 would assist and make technical amendments to the dividend statutes. The Governmental Accounting Standards Board (GASB) has changed its definition of terminology and financial reporting statutes. This means that in order to provide the highest and maximum dividend, AIDEA must change its statutes so AIDEA's terminology matches GATSB's terminology. For example, AIDEA's definition for net position must match the GATSB's definition of net position, he said. Additionally, AIDEA has two funds: the Revolving fund for normal projects, and with passage of Senate Bill 25 in 2012, the Sustainable Energy Transmission and Supply Development Fund (SETS). Thus, AIDEA is asking the legislature for the authority to calculate dividends on each individual fund separately instead of the current netted calculation process. He explained this is necessary so if SETS fund suffers a loss, it would not affect AIDEA's revolving fund. Thus far AIDEA has distributed \$345 million in dividends since 1998, he said.

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MR. LEONARD explained that the third part of HB 74 would allow AIDEA to participate in the development and financing of a liquefied natural gas (LNG) plant and a natural gas distribution system in Interior Alaska. He explained this would allow AIDEA to work through the \$355 million financing package the governor is recommending to the legislature and also utilize the SETS energy financing tools. In essence, one portion would authorize AIDEA to lend to the project more than one-third of the cost of the project. Under SETS, AIDEA can only participate up to one-third of the capital cost of the project. This change would give AIDEA the authority to invest more and to issue bonds to help finance the project.

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CHAIR OLSON asked for clarification on the cap, whether it is a dollar cap or a percentage.

MR. LEONARD answered that the new limit is based on one-third of the capital cost.

MR. DAVIS answered that legislative approval necessary for loans.

MR. LEONARD clarified that legislative approval necessary for bonding, too.

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CHAIR OLSON asked where else AIDEA would foresee using this capacity.

MR. DAVIS answered that the AIDEA has been working on implementing the SETS. He reported the agency has developed regulations, which have gone out for public comment and should be in place by the end of March. He envisioned using this program to support energy projects in rural Alaska, such as propane gas distribution in the Gulf of Alaska communities of Cordova and Yakutat. Additionally, AIDEA is considering whether this process could be used for wind farm development. He suggested these projects would be projects sold into the grid and would not be stand-alone projects. He remarked that the additional funding authority could be used for transmission lines.

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MR. DAVIS offered to provide a sectional analysis of HB 74. He referred to page 3 to proposed Section 2 of HB 74, would allow AIDEA to provide development project financing. Currently, under AS 48.88.070 (2), AIDEA can own and operate projects; however, this proposed section would extend the authority to add development project financing. He characterized the change as being more of a private sector approach. This change also corresponds to language on page 9 of HB 74 by amending AS 44.88.172 (a), to allow project financing for development projects that the authority does not intend to own or operate, such as the Skagway Ore terminal. This provision would ask the legislature for the authority to use AIDEA's revolving fund to provide development project financing as Mr. Leonard previously mentioned. Thus, this would allow the current \$480 million in the AIDEA's revolving fund to be used for financing. He clarified this doesn't mean AIDEA would not own projects, nor is this a change in direction, but it would simply give AIDEA another tool to use.

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REPRESENTATIVE MILLETT referred to page 4, line 7 of HB 74. She asked the reason for the change from "Alaska" to "state" since this term seems interchangeable.

MR. DAVIS answered this change is a technical change requested by the Department of Law (DOL). In further response, he said he was unsure if the changes would be made to all statutes; however it would specifically change the term in this instance. He characterized the change as a reconciling format.

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MR. DAVIS turned to payment of dividends on page 8. He stated that AIDEA defines three terms in AS 44.88.088(b). While the term "base fiscal year" would stay the same, new standards would be added under the GASB board for "net income" and "unrestricted net income." In essence, this would allow the dividend to increase, he said.

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MR. DAVIS referred to page 7, to another technical amendment, which would allow AIDEA to pay a dividend from the current AIDEA revolving fund and the new SETS fund. He explained AIDEA was originally intended to pay a single dividend; however, the AIDEA accounting staff suggested it would be better to pay the

dividend from each of the two funds. Thus if one fund was not making money the other fund wouldn't be tapped, and different rates of return from each fund could occur, which is consistent with energy projects. He suggested that this makes sense. He pointed out changes on page 7 that affect AIDEA's Revolving fund and on page 8 for the SETS fund. This concludes the substantive legal issue changes in the bill, he said.

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MR. DAVIS turned to page 10, to proposed Section 10, which would amend the uncodified law. He said this is designed to make a one-time change - a waiver - which would allow AIDEA to provide financing more than one-third of the loan for the size of project contemplated. Additionally, he advised that AIDEA is required by statute to request authority bonding in excess of \$10 million so this bill would request authority to issue bonds of \$150 million.

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MR. DAVIS said while this provision would give AIDEA additional legal tools, in essence, the bill would support the governor's Interior energy plan. The governor's Interior energy plan consists of four components: \$150 million in bonding authority; an appropriation authority from the SETS fund in the amount of \$125 million at an approximately rate of 3 percent; a one-time general fund appropriation to AIDEA for \$50 million specifically for the LNG plant construction; and existing gas storage credits of \$30 million - which passed the legislature last session. To summarize, the entire governor's plan for the project would total \$355 million, he said. This would allow AIDEA an opportunity to pursue the possibility of building a small LNG plant on the North Slope, truck the gas to Fairbanks, and place the gas into a natural gas distribution system. Although a small natural gas distribution system currently exists, the aforementioned \$150 million would be used to build out the natural gas distribution system in Fairbanks, he stated.

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MR. DAVIS explained that the rest of funds - the \$125 million SETS loan, and \$50 million appropriation for AIDEA - would be used to support the construction of the LNG plant itself. The goal would be to provide gas delivered to Fairbanks at approximately \$10.32 per [thousand cubic feet] Mcf. He related that AIDEA is currently undergoing a process to ensure it is

possible to do so. He explained that on December 8, AIDEA sent out a request for interest, received 16 responses, and reviewed the responses internally. He related AIDEA plans hire an engineering firm with expertise in LNG plants, and will expect AIDEA's project manager - Jim Strandberg - and the consultant team to begin the process to consider the feasibility of the project, including the process and cost of a building an LNG natural gas distribution system, along with possible locations. In fact, AIDEA has received turnkey offers in the responses, meaning that the companies already have the pad, and are offering to build it. Additionally, other firms offered to work with AIDEA to accomplish the project.

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MR. DAVIS pointed out that if HB 74 passes it doesn't necessarily mean funds will be spent since AIDEA will comply with the standard process it uses on all projects. First, the AIDEA board would want to ensure the project meets its statutory authority and goals. In this instance, the determination has already been made since AIDEA is authorized to build a gasification project under the SETS funding. Next, AIDEA would perform the necessary due diligence to make certain the project will pencil out to ensure AIDEA can make a return, as well as for the private sector. However, the proposed LNG plant cannot be built solely from funds authorized in this bill. In fact, it will be necessary for AIDEA to reach out to obtain private capital to make this project work. "That's how AIDEA works," he said.

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REPRESENTATIVE MILLETT recalled he mentioned \$150 million for distribution in Fairbanks. She asked whether money is set aside for a study first and the funding would be used for the natural gas distribution system.

MR. DAVIS answered that AIDEA has resources available it can use to invest in projects. Thus AIDEA would use internal funds to conduct the study; however, the \$150 million represents AIDEA's best estimate for costs to build a natural gas distribution system for the core and middle-density areas of Fairbanks. He offered his belief this represents the best opportunity to supply gas to the maximum amount of people at the best cost. In further response, Mr. Davis said he was unsure of the number of homes that would be served.

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GENE THERRIAULT, Deputy Director, Statewide Energy Policy Development, Alaska Energy Authority (AEA), Department of Commerce, Community, & Economic Development (DCCED), explained that two proposals are planned in Fairbanks for the build out: Fairbanks Natural Gas, the existing operator of the small distribution system, plans to push out and cover 16,000 homes; and the Fairbanks Economic Development Corporation (FEDC), previously received state money to consider how far the natural gas distribution system could be built out. He reported the FEDC has estimated it may be able to serve 22,000 homes. He reiterated that this would represent the core dense area and the secondary area, but would cover as much of the Interior housing and business community as possible.

REPRESENTATIVE MILLETT asked whether homeowners would incur any costs to connect to the natural gas distribution system.

MR. DAVIS agreed various ways to construct hookups exist, but he envisioned AIDEA's design would be to lower the actual cost or finance hookup costs. He reiterated various models exist, but obviously the lower cost or best financing for homeowners is an important consideration. He said he personally worked on the Girdwood gas conversion 20 years ago so he is sensitive to people's concerns about hookup costs.

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REPRESENTATIVE MILLETT asked whether the 16,000 or 22,000 homeowners have any "buy in" for the project if costs are associated with a necessary conversion to LNG.

MR. DAVIS answered that the best sales plan for homeowners is AIDEA's work to supply gas to Fairbanks at \$10.32 Mcf with delivery estimates ranging from \$13 to \$17.29. He said this is based on models that the Alaska Energy Authority (AEA) has performed using various assumptions and parameters. He concluded that LNG service should result in a 40 to 50 percent reduction in heating cost bills to the Fairbanks' homeowners, compared to current diesel fuel cost of \$3.90 per gallon. Accordingly, if diesel fuel costs increase, this would only improve the viability of the project, he said.

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REPRESENTATIVE MILLETT asked how it would impact Fairbanks if the state invests \$355 million for thermal heat and then competing projects in Anchorage are subsequently built. She suggested this would make electricity cost effective and wondered if residents would then need to convert from liquefied natural gas to electric heat. She acknowledged this project - the LNG and natural gas distribution system project to serve Fairbanks - sounds good now, but expressed concern about what might happen if a lower cost solution arrives later.

MR. LEONARD acknowledged a proposed in-state pipeline is certainly a potential project; however, AIDEA believes such a project would be compatible with the proposed LNG project in Fairbanks. He advised that prior to building out the natural gas distribution system, a guarantee must exist to ensure gas is available to serve the customers. He pointed out that AIDEA believes the \$150 million in bonding would sufficiently build out the distribution system to accommodate gas. Granted, the natural gas distribution system would be built in sections, but AIDEA would not need to issue bonds as a whole; instead, AIDEA would issue bonds as needed to build out the natural gas distribution system. Further, one of AIDEA's roles has been to determine whether projects pencil out to benefit consumers. In fact, this project was designed by the governor to provide low-cost financing and the only pure state grant funding request is the \$50 million equity funding since the rest of the project would be financed with private sector and utility funds. He pointed out determining cost effective availability of electricity goes beyond AIDEA's ability so he deferred to Mr. Therriault to answer that question. However, he reiterated that AIDEA believes synergy exists between the two projects.

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REPRESENTATIVE MILLETT said she is hopeful that the Healy Clean Coal Project (HCCP) will provide another opportunity for low-cost electricity to the Railbelt. She surmised coal would be the most cost effective energy.

MR. LEONARD said AIDEA also hopes that HCCP will be up quickly; however, he understood that HCCP would not replace heating in Fairbanks. While Golden Valley Electric Association (GVEA) could explain this more fully, GVEA anticipates one of its turbines could be switched to gas. In conclusion, AIDEA believes that HCCP coming online will help reduce electrical costs in Fairbanks, but will not replace using gas for heating.

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REPRESENTATIVE JOSEPHSON recalled the GVEA said it would take \$400 to 600 million and more than 22,000 homes to do so. He assumed that number of homes would serve about 60,000 people. He asked whether the LNG project and natural gas distribution system would cover everyone.

MR. DAVIS said this project is not designed to cover everyone, but the natural gas distribution system would cover the most cost effective areas. He understood the proposed project would produce a two-percent stream of propane, which could provide heating for approximately 2,200 additional homes. He reiterated a natural gas distribution system typically serves core areas. For example the Matanuska-Susitna valley service is an example of this.

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MR. DAVIS suggested AIDEA believes this project would be a bridge to the gas pipelines, albeit an important one, since any pipelines would be designed to provide greater coverage. For example, the Alaska Stand Alone Pipeline (ASAP) study covers substantially more customers than this project, he said.

MR. LEONARD cautioned that \$355 million does not represent the full build out natural gas distribution system in Fairbanks, but would provide the core build out of the system. Thus, the core build out of the natural gas distribution system would provide the catalyst to expand the natural gas distribution system. He recalled the full natural gas distribution system build out would cost \$400 to 500 million and the initial distribution plant would cost \$220 million for nine billion cubic feet (BCF) system. He explained the system could be expanded in 4 Mcf segments up to 20 BCF. He reiterated the \$355 million would not cover a full build out or a full maximum capacity plant; however, the LNG plant and natural gas distribution system is meant to be the core and catalyst to provide cheaper energy to Fairbanks. Additionally, AIDEA believes this project would provide the basis to finance the additional build out of the natural gas distribution system. He reiterated the \$355 million represents the core amount to get the project going. Even so, he did not anticipate AIDEA coming to the state for additional funds, he said. Instead, he stated that once the project is operational, the natural gas distribution system will be built on the success of getting the highest and medium sections built.

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REPRESENTATIVE JOSEPHSON asked for scalability to large or small gas lines and whether the proposed LNG and natural gas distribution system to Fairbanks has value to the proposed natural gas projects.

MR. LEONARD answered that the way the projects merge together is that first AIDEA would provide gas to Fairbanks and then build out the natural gas distribution system. Meanwhile, the state must decide which gasline will come to Fairbanks. Once the natural gas flows to Fairbanks, demand from the LNG plant exists either by moving the LNG plant to Fairbanks and using the natural gas pipeline to serve Interior Alaska or the LNG will be used in mines. For example, AIDEA is currently working on the proposed road to Ambler. However, once built, the mines in the Ambler area would need an estimated at 180 megabytes of energy and anticipates using natural gas as feedstock for these plants. He reiterated AIDEA believes trucking LNG to Fairbanks is an interim solution that would help promote the natural gas distribution system once a natural gas pipeline is built to Fairbanks, the LNG plant could be used for another purpose.

MR. DAVIS interjected that is important since the life of the proposed LNG plant is beyond the anticipated use for Fairbanks. Therefore, by finding residual uses for the plant, which AIDEA believes exists, would allow AIDEA to amortize the plant over the appropriation life of the plant and therefore reduce the debt service.

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CHAIR OLSON asked for investment by Fairbanks, Fairbanks Natural Gas, Fairbanks North Star Borough (FNSB), the Fairbanks North Star Borough School District since this will allow for significant savings.

MR. DAVIS answered that AIDEA anticipates traveling to Fairbanks in the near future, and that contracts will need to be in place for financing since financing can't occur without commitments. Again, this represents a finance package and not anything beyond the normal AIDEA process. Currently, AIDEA will examine the benefits of the engineering that offered by other groups, which is part of the due diligence process. He acknowledged that AIDEA is on a fast track to get this done since people need a solution; however, the LNG project will also provide a bridge to a natural gas pipeline. He offered his belief long-term markets

exist for trucked LNG to areas that cannot be served by a pipeline. He said some uses are industrial, such as for mines. In fact, mines prefer trucking in LNG rather than using diesel in terms of cost. Further, LNG has less environmental impact, which is also important to mining. Finally, LNG can also be used for other residential uses so it provides a flexible plan to work with pipeline.

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CHAIR OLSON asked specifically what Fairbanks Natural Gas, LLC, (FNG) will bring to the table.

MR. DAVIS related that FNG has made a proposal which is confidential so he is not at liberty to disclose the specifics. He added that AIDEA is current meeting with FNG, but it doesn't mean an agreement will be reached. Additionally, GVEA has also made a proposal and AIDEA will meet with them, too.

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MR. DAVIS concluded AIDEA is very pleased with the idea that good proposals have been received. He said that AIDEA's job as the state investment bank is to review proposals and determine which one will best meets the governor's stated goal: to substantially lower the cost of energy in Fairbanks. In response to a question, he suggested that within the next three weeks AIDEA should be able to advise the legislature on the assessment of the proposals before them.

CHAIR OLSON asked how the legislature could make such a major decision since it does not currently have a lot of information.

MR. DAVIS clarified that AIDEA is requesting an appropriation from the legislature which would not be used unless AIDEA meets its goals. He reiterated that the project cannot move forward unless AIDEA determines the project is viable.

CHAIR OLSON questioned this since once the money is available an expectation occurs that the project will be built. He said he personally needs more information on the proposals.

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REPRESENTATIVE REINBOLD commented everyone wants solutions to the energy problems and legislators are aware of Interior Alaska's needs for relief; however, she did not want anything

remotely like the price tag - the \$500 million on the Alaska Gasline Inducement Act (AGIA) project. She asked whether AIDEA has checked with the private sector to determine if this project fits into a long-term energy plan.

MR. DAVIS answered yes. He explained that the request for information to the private sector was sent to assess interest. Further, the proposed LNG project and natural gas distribution system is intended to be a public private partnership (P3) with AIDEA. Initially, AIDEA would like to drive rates down to help consumers, but the long-term plan for the proposed LNG plant is to sell LNG commercially. Therefore, AIDEA has been checking demand with the private sector market for the proposed plant. He envisioned two streams for the proposed LNG plant: one consisting of regulated utility stream directed to a natural gas distribution system in Fairbanks; second, a stream directed to industrial uses at a different, non-regulated price.

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REPRESENTATIVE REINBOLD stated she wanted to make sure that the project fits in with long-range energy plans. She said, "I'm going to be cautiously listening to the long-term solution for the energy plan and making sure it fits into that."

MR. DAVIS responded that AIDEA invests in projects for a return and supports energy plans, which is the reason AIDEA is working with the Alaska Energy Authority (AEA). The advantage of having AEA as a partner is that AEA can provide the policy side to ensure consistency and AIDEA can provide the financing side. The AIDEA considers this project as compatible with a pipeline so project planning is based on another source of gas that will subsequently supplant the LNG. Thus AIDEA will determine whether the LNG project pencils out in the short run, and if natural gas becomes available whether the plant can be used, and if AIDEA can obtain a rate of return sufficient to repay the debt service. He concluded by stating that is the process AIDEA has been using.

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REPRESENTATIVE JOSEPHSON asked expressed concern that other gas projects will supplant the LNG project.

MR. DAVIS acknowledged it may have been due to his choice of syntax. He clarified, with respect to the LNG and natural gas distribution system in Fairbanks, that a natural gas pipeline

would be an excellent way to supply gas to major city; however, in terms of residual use the LNG could also be supplied to industrial and residential users outside of Fairbanks.

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REPRESENTATIVE JOSEPHSON asked him to describe the mobility of the LNG plant, and whether it could be relocated from the North Slope.

MR. DAVIS related that the request for interest specified the proposed LNG plant must have a moveable capability sufficient to traverse the Dalton highway. Thus the proposed LNG plant could be moved to any location on the road system, he stated. Currently, AIDEA is considering Fairbanks as a potential LNG plant location to support the Ambler district mining, but an LNG plant could be moved to Southcentral Alaska if gas needs exist in that area. Naturally, any business plan would examine all the parameters, including any market changes; however, his job is to ensure AIDEA builds a project with a rate of return built into it that works for the private sector.

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REPRESENTATIVE JOSEPHSON asked him to compare his bill to another AIDEA bill before the legislature introduced by Representative T Wilson.

MR. DAVIS responded that the aforementioned bill, HB 58, proposes to provide funding for the LNG plant, but not for the rest of the natural gas distribution system. While AIDEA has not developed an opinion on that bill, HB 74 places the LNG to a source, which is probably a good business plan. Of course, the first question the bond market must ask is the source of gas to put into the distribution system. Alternatively, to build an LNG plant, the bond market will ask who will purchase the gas. He explained that HB 74 would build using a tandem process so the financial questions are answered on both sides of the equation.

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CHAIR OLSON invited Representative T. WILSON to join the table.

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REPRESENTATIVE JOSEPHSON offered his belief that this begs the question in terms of production and distribution. He suggested the committee would need to hear more about the proposed natural gas supply.

MR. DAVIS answered that two of the proposals of interest have contracts in place with one of the North Slope producers; however, the details remain confidential.

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MR. LEONARD reiterated that AIDEA's involvement is due to project financing capability. The governor's finance package is based on a private sector model of low cost financing. In fact, one of AIDEA's main roles is to provide access to low-cost capital for projects. Further, the request for state appropriation is limited to a \$50 million catalyst, with the rest of the financing - the bonds and the \$125 million SETS loan- would be repaid over the life of the LNG plant.

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REPRESENTATIVE T. WILSON asked whether AIDEA has projected specifically how other communities would benefit.

MR. LEONARD answered that AIDEA will assess other demands as part of due diligence process. He said AIDEA believes that the LNG plant would be used by more than just Fairbanks, especially once a natural gas line connects to Fairbanks AIDEA would fund alternative demands. He concluded that AIDEA is currently undertaking this process.

REPRESENTATIVE T. WILSON said she would not go so far as to characterize the project in HB 74 as being a statewide project; however, she acknowledged that Fairbanks is not the only community with energy needs. She offered her belief that this project could answer some of the rural communities, as well as some of the Railbelt communities.

CHAIR OLSON pointed out AIDEA previously mentioned providing LNG to villages and mining areas.

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MR. LEONARD pointed out that AIDEA also assesses economic development. He said AIDEA believes this plant provide mines with an alternative to the high cost of energy needs. He

emphasized that the cost of energy would play a vital part in determining feasibility of developing any mine.

MR. DAVIS remarked that AIDEA has been asked to develop an industrial road for the Ambler mining district and through this process AIDEA has identified a need for energy, and internally identified LNG as the best source, confirmed by the mines. Even though this doesn't mean these mines will be built, AIDEA has begun the environmental process and the mines are working on a memorandum of understanding (MOU) to develop their mines. Perhaps the two will come together, and if they do, at a certain point the mines will need a lot of energy.

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JOMO STEWART, Energy Project Manager, Fairbanks Economic Development Corporation (FEDC) stated he wished to speak in support of the bill, the process, and the policy decision the bill represents. He said the FEDC energy believes that energy is a necessary component and fundamental underpinning. The availability and affordability of energy impacts all other aspects of the economy, and it either acts as a lubricant for the economy or drains the well of financial capital and sapping the economic vitality of a community. In fact, in Alaska this is true on a statewide basis; however, in Fairbanks the challenge has been the affordability of energy. Thus, while plenty of energy is available in Fairbanks, energy costs are pricey and is draining the well of financial capital, he said. At the same time, Anchorage and the Cook Inlet have experienced energy at a good price, but as the decline curve begins to kick in, these communities are also facing an availability challenge.

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MR. STEWART, in response to Representative Millett's concern, related that in 2011, the legislature funded a \$500,000 gas distribution study in Fairbanks. Although Fairbanks wanted to transition to gas, and a number of proposals - either a bullet line or the large diameter line - were proposing pipelines transiting Fairbanks, the community did not have any distribution system infrastructure. In fact, that study was completed in 2012 and reported to the legislature. In Fairbanks, there is broad agreement that the governor's proposal represents a good start. The FEDC understood that large scale grants would not likely be forthcoming, but FEDC wanted to explore ways to help community to transition to gas under a payback system. He offered his belief this bill provides that

system. He said FEDC believes the policy decisions were made several years ago with the power project fund and the SETS funds were created to allow for project financing. The question is whether the state will use those mechanisms in earnest to help communities transition to fuels that would allow energy to be an underpinning and fuel for the engine of growth rather than a drain on community finances.

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MR. STEWART recalled Representative Millett mentioned electricity and asked whether a Susitna Hydroelectric project might come along and make the LNG plant obsolete. He then answered that question, relating the FEDC started with the goal of bringing affordable energy to as many residences and businesses as possible, as quickly as possible. The FEDC chose as a target \$15 per million metric British thermal units (MMBtu) to the structure, whether it was a home or a business. However, to use electricity the cost would need to be \$.05 per kilowatt hour (kWh). Currently, Fairbanks electricity runs \$.23 per kWh, with \$.13 representing GVEA's overhead. Even if fuel was free, Fairbanks's cost would be double the target amount of \$15 MMBtu, he said. In fact, it would be comparable to current fuel costs.

MR. STEWART discussed the feasibility of the proposed LNG plant. Actually, the bullet line economics requires a fully built out Fairbanks, using 19 - 21 billion cubic feet (Bcf) of gas. Currently, Fairbanks uses about 1 Bcf of gas. In essence, the LNG plant would allow the community to build out its infrastructure. He characterized this as a chicken and egg concept, in that gas becomes available but the community does not have a natural gas distribution system or the distribution system exists without any gas to feed it. He emphasized that moving forward an LNG facility with a natural gas distribution system allows Fairbanks to build out its infrastructure to feed larger projects, such as a bullet line or the major gas line to the coast.

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MR. STEWART pointed out that the LNG could have a longer life even when larger projects come on line. Once LNG is on a truck it can go anywhere via the road system, such as Healy, Denali, Glennallen, or Talkeetna. While Fairbanks is first at the gate since it has been working on these issues for some time, the utility of having LNG to serve other communities will still remain. Finally, in terms of grant versus financing issues,

Fairbanks is financially challenged since fuel oil costs have been sucking \$200 to 400 million per year from the community, which has placed a serious drain on Fairbanks's economy. However, the FEDC still believes it has the means to provide payback. Initially, FEDC considered creating a revolving loan fund so rather than give money to a project the state would make funds available to a project, the project would repay the fund so the funds would be available for other communities who are ready to begin to transition into the lower-cost paradigm. He conceded that the FEDC believes HB 74 takes a step in that direction.

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REPRESENTATIVE T. WILSON, Alaska State Legislature, said she would like to answer a few questions she has heard asked in the building. According the Environmental Protection Agency (EPA), Fairbanks has an air quality problem. In fact, Fairbanks has become a non-attainment area, subject to transportation funding losses, in particular for any potential troops. As a result, Fairbanks must find an affordable, alternative source of energy. Currently, wood, coal, oil, or gas represent potential choices, but fuel oil is currently \$4.10 per gallon. Additionally, the average temperature in November and December was minus 30 degrees. Luckily the temporary is zero today. Although her first choice would be to have a private company provide energy, Fairbanks is too small to attract a private company, she said. However, the community can only grow if it has an economical source of energy. Once again, this creates the chicken and the egg circumstance since the community can only attract affordable energy if it grows and it can't grow without affordable energy. She offered her belief the LNG project in HB 74 is not limited to Fairbanks. Granted, the Fairbanks community would initially benefit the most; however, the LNG could also serve the rural residents who have been moving from the rural communities into Fairbanks and Anchorage areas since affordable energy is not available in rural Alaska. In fact, rural Alaska's costs are worse than what Fairbanks is experiencing. Naturally, she is excited a pipeline project will come to Fairbanks; however, Fairbanks can't wait ten years for it to arrive due to economics and the looming negative impacts from the EPA.

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REPRESENTATIVE T. WILSON suggested that Fairbanks is comparing affordable gas to oil. She pointed to the University of Alaska Fairbanks and its desire to put in a coal plant since even

natural gas is not as affordable as coal. Specifically, for sake of the Fairbanks community, the LNG project would be an interim measure and not a competing project. In short, the proposed gaslines must undergo substantial permitting processes, while the EPA insists Fairbanks use cleaner energy. She said, "I know. I don't get it either. We're under those two guns at this point." At the present time, AIDEA is going after the next step, which is what to do when Fairbanks does not need the LNG any longer. Fortunately, Alaska has mines in areas that the gas line will not serve. In fact, the gas line will not get to other parts of the state first. Therefore, AIDEA has been considering ways to ensure the proposed LNG is usable in 25 years. In conclusion, she said that Fairbanks appreciates the governor's plan so Fairbanks will make it work; however, the proposed LNG plant is not just for Fairbanks. Further, she acknowledged some communities have felt the stress even longer than Fairbanks has.

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REPRESENTATIVE REINBOLD asked for clarification on the cost. She remarked that many people are afraid of another AGIA, in which the state is awaiting the private sector, which turns out to be false hope, even though it is a \$500 million project. Granted, the financing is different, she said.

CHAIR OLSON interjected it is a different \$500 million.

REPRESENTATIVE REINBOLD emphasized the legislature wants a long-term energy plan and wants a solution; however, she would like to know how this fits together, what other communities will invest, and whether it is truly a plan that is worth investing in.

REPRESENTATIVE T. WILSON answered that Fairbanks is definitely worth investing in. In fact, Fairbanks will not continue to exist if it does not obtain affordable energy.

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REPRESENTATIVE T. WILSON compared the proposed funding for the LNG project with AGIA. First, the state would not be giving Fairbanks \$500 million to see what might happen in a 10- to 20-year timeframe. At the onset, this is broken down into specific parts, including storage tanks the legislature funded through tax credits. Second, the infrastructure would be built from loans or bonds and not an appropriation. Specifically, the \$50

million for the proposed LNG project requires AIDEA to undergo its due diligence process for bonding, which means AIDEA must determine the project pencils out. If not, loans would need to make up the \$200 to \$225 million necessary for the project. Therefore, additional natural gas distribution system funds won't be spent unless the proposed LNG plant is in place. With AGIA, the state funded millions of dollars for permitting; however, that type of permitting is not required for the proposed LNG plant, she said.

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REPRESENTATIVE REINBOLD asked whether the local owners are on board for the necessary conversions.

REPRESENTATIVE T. WILSON related the legislature is considering a bill that would create a low-interest loan program for homeowners who improve or replace their home heating systems. Additionally, homeowners can apply for rebates. She said, "They are absolutely buying in. We're having them buy in even on the wood stove change out program." She continued by stating that Fairbanks is changing its system from wood stoves to meet the EPA's air quality requirements. She emphasized that Fairbanks cannot continue to use diesel fuel oil, even if prices dropped slightly; however, the alternative energy is primarily wood. She offered her belief that Fairbanks cannot meet the EPA's requirements without using gas. In fact, the state stands to risk losing its transportation funds if Fairbanks cannot meet attainment, she said. In further response, Representative T. Wilson answered that it fits into the long-range energy plan, and is not a competing plan. The federal government requires so much permitting and it takes so long to go through the process, she said.

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REPRESENTATIVE T. WILSON characterized the proposed LNG project as an interim project; however, what makes the project more feasible is the proposed LNG will be available for mining; districts and Fairbanks is already seeking partnerships. She reiterated that \$50 million is the requested state appropriation and the rest of the financing would be in loans and bonds. In fact, if it needs to come from the capital budget she would endorse it as worthwhile.

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CHAIR OLSON commented the most compelling argument he heard today is the life and safety issue. He emphasized that people need to be reminded how bad the situation is for Fairbanks in terms of air quality. He stated that public testimony would be held open on HB 74.

[HB 74 was held over.]

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**ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 5:01 p.m.