

SENATE FINANCE COMMITTEE

April 8, 2013

2:43 p.m.

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CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 2:43 p.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair
Senator Kevin Meyer, Co-Chair
Senator Anna Fairclough, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Barbara Huff Tuckness, Director of Governmental and Legislative Affairs, Teamsters Local 959; Rena Delbridge, Staff, Representative Mike Hawker; Representative Mike Chenault; Representative Mike Hawker.

PRESENT VIA TELECONFERENCE

Harold Heinze, Self, Anchorage; Clay Walker, Mayor, Denali Borough, Denali Borough; Merrick Pierce, Self, Harding Lake; Terry Hinman, Self, Denali Borough; Deantha Crockett, Executive Director, Alaska Miners Association, Anchorage; Bill Sheffield, Former Governor of Alaska, Anchorage; Cindy Roberts, Self, Anchorage; Rick Rogers, Executive Director, Resource Development Council (RDC), Anchorage; Bert Cottle, Self, Mat-Su; Manny Escobido, Self, Mat-Su; Jim Plaquet, Self, Fairbanks; Karl Gohlke, Frontier Supply Company, Fairbanks; Dave Cobb, Mayor, City of Valdez, Valdez; John Hozey, City Manager, City of Valdez, Valdez; Lisa Vonbargen, Self, Valdez; Mike Wells, Self, Valdez; Mike

Williams, Self, Valdez; Lynn Crystal, Self, Valdez; Sheri Peirce, Self, Valdez; Dave Dengel, Self, Valdez; Jeremy O'Neil, Self, Valdez; Jim Sykes, Self, Palmer; Jerry Cleworth, Mayor, City of Fairbanks, Fairbanks; Luke Hopkins, Mayor, Fairbanks North Star Borough, Fairbanks.

SUMMARY

HB 4 ALASKA GASLINE DEVELOPMENT CORP; RCA

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

#hb4

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 4(FIN)

"An Act relating to the Alaska Gasline Development Corporation; establishing the Alaska Gasline Development Corporation as 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 and its subsidiaries 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; repealing the statutes relating to the Alaska Natural Gas Development Authority and making conforming changes; 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 Meyer requested that testimony be limited to two minutes per testifier.

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HAROLD HEINZE, SELF, ANCHORAGE (via teleconference), expressed support for HB 4. He discussed his work and background with oil and gas issues. He testified that the in-state gas issue was filled with levels of complexity and that the decisions made surrounding the issue should be based on business principals, rather than political principals. He believed that that AGDC was operating with incomplete legislative authority. He noted that the current board of directors lacked any expertise or appreciation for the issues involved in an in-state pipeline. He thought that the greatest strength of HB 4 was that it would create a public corporation in the state with the proper framework to take on all of the different roles that were necessary and provided a business-like, board of director's structure to make important decisions.

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Senator Hoffman asked if the testifier could recommend changes that would strengthen the bill to ensure that the gas was delivered to all Alaskans. He noted Page 13 of the legislation. He believed the language was excellent but did not clearly state how delivering gas to rural areas would be accomplished.

Mr. Heinze responded that the best way that the bill would be meaningful to all Alaskans was to have a board of directors that was committed to delivering gas to the entire state. He stressed that working relationships would have to be struck with the producers and several entities throughout the state. He said that he read nothing in the legislation that prohibited the board from working toward getting gas to rural Alaska. He believed that the bill embodied the spirit of success.

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CLAY WALKER, MAYOR, DENALI BOROUGH, DENALI BOROUGH (via teleconference), spoke in support of HB 4. He shared that during a March 2013 meeting the Denali Borough moved to comment positively on passage of HB 4 and was considering a supporting resolution. He opined the high cost of energy in the Denali Borough and related that affordable, clean and reliable energy should be brought to the region.

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MERRICK PIERCE, SELF, HARDING LAKE (via teleconference), testified against HB 4. He reminded the committee that when AGIA was passed, little attention had been paid to what was happening with shale gas in the Lower 48. He thought that if the legislature had understood the significance of the shale oil, Alaskans would not have wasted several million dollars and half a decade studying a fruitless project. He felt that the parallel between the wasted effort under AGIA and HB4 was striking. He believed that the Senate Resources Committee had not done a thorough job vetting the bill and that it opened the state to liability. He said that HB 4 opened the state up to treble damages under AS 43.90.440. He stated that the cost of gas from the bulletline ensured no export market, the only potential market left would be an in-state market, but the finance charges for the project were not supportable by Rail belt consumers. He furthered that HB 4 funded a project that had the wrong route; HB 4 would not provide gas to Eielson Air Force Base or national missile defense at Fort Greely, it ignored research that had found that gas needed to be available along the Richardson Highway where there was the greatest potential mineral resource. He said that HB 4 overturned the border initiative from 2002 that created Alaska Natural Gas Development Authority (ANGDA) and that passing the bill would send the message that 138,000 Alaskans were wrong. He added that HB 4 ignored the AML resolution 20-12-01 that supported that Alaska gasline and rejected the bulletline. He concluded that the best choice would be to reject the bill and fully funding short-term solutions like a small pipeline from Big Lake to Fairbanks or LNG trucking.

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TERRY HINMAN, SELF, DENALI BOROUGH (via teleconference), spoke in support of HB 4. He believed that waiting for the large petroleum producers to decide on moving LNG to

market, while Alaskans suffered high energy costs, was not an affordable option. He stated that HB 4 was the only plan that was well conceived. He pointed out that an Alaska stand-alone pipeline was the only plan that focused on supplying energy to the residents of the state. He believed that the resources of the state should meet the needs of Alaska's residents before being exported to foreign markets. He opined that the increased cost of doing business in-state was being passed on to consumers. He believed that the Alaska stand-alone pipeline could provide the energy needs for the entire state for the next 100 years.

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DEANTHA CROCKETT, EXECUTIVE DIRECTOR, ALASKA MINERS ASSOCIATION, ANCHORAGE (via teleconference), testified in support of HB 4. She related that the mining industry was struggling with energy issues at a substantial level. She stated that it was difficult to explain to potential partners why it was so costly to operate a mine in Alaska. She stressed that companies looking to invest in-state look at the cost of energy when reflecting on their cost/benefit analysis. She shared that the industry used 100's of megawatts to operate their mines, and that some of the projects on the horizon had examined ways to bring natural gas to where they are located. She believed that HB 4 would benefit the mining industry as well as the state.

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BILL SHEFFIELD, FORMER GOVERNOR OF ALASKA, ANCHORAGE (via teleconference), spoke in support of HB 4. He expressed concern with future wellbeing of Alaskans and related that the bill's passage was a big step towards delivering a long-term, affordable source of energy to a large part of Alaska's population. He thought the bill would lead to jobs during construction and ongoing jobs in production and delivery afterwards. He noted that the bill allowed the possibility of the Ingram Plant on the Kenai Peninsula to reopen providing 325 jobs. He offered that it could also help the Foothills Refinery. He detailed the myriad of ways the legislation would benefit the state. He noted that the project was beyond conceptual and had completed the environmental impact statement (EIS), Right-of-Way-approvals for the entire line and engineers were working relentlessly on the project. He believed that the gas

should be used by Alaskans separate from the oil revenues that the state has depended on to provide services to the public and the state's operating and capital budgets. He stressed that Alaska was given the right to be a state because of the resources available to insure independence. He expressed appreciation to the committee for the work done on the legislation.

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Co-Chair Meyer noted that Speaker Chenault was present in the audience.

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CINDY ROBERTS, SELF, ANCHORAGE (via teleconference), testified in opposition to HB 4. She stated that it was important to get gas to present and future Alaskans. She related that the line would not be an adequate size to deliver cheaper gas to Alaskans. She stated that economics of the proposed pipeline were compromised by the legal limits imposed by AGIA. She asserted that the fiscally conservative legislature was losing sight of the \$5 million already committed to AGIA. She stated that more than \$300 million of the inducements had been invested by the state. She opined that the results of the inducements had not been reported to the public or the legislature. She related that there were 2 open seasons for AGIA that had not been disclosed. She said that the September 2012 open season yielded approximately 200 percent interest by willing purchasers and wondered why a third open season, on a smaller line, would be a wise investment. She urged the committee to read the 2011 Alaska Gas Port Authority Report.

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RICK ROGERS, EXECUTIVE DIRECTOR, RESOURCE DEVELOPMENT COUNCIL (RDC), ANCHORAGE (via teleconference), testified that RDC supported HB 4. He further encouraged the modification of the AGDC governing statutes. He shared that RDC had examined the bill in the effort to make sure that it did not promote one resource over another. He stated that under HB 4 the open season would secure firm economic commitments and would succeed or fail on its economic merits. He believed HB 4 provided an appropriate balance by providing public sector support in the early stages that

were sufficient to bring the project to an open season where the economics would determine the projects fate. He said that he remained hopeful that a larger diameter pipeline to tidewater would be sanctioned making the development of the stand-alone gas project as envisioned unnecessary. He stressed that the RDC did not view HB 4, and the stand-alone gas project as a threat to a larger gasline; it was viewed as an alternative means of delivering gas to Alaskans should a larger project not be sanctioned. He said that should a larger line mover forward HB 4 would be in a position of authority to help expand inter-state gas transportation. He felt that the viability of the project would be unknown until an open season was held.

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BERT COTTLE, SELF, MAT-SU (via teleconference), spoke against HB 4 in its current form. He related that the current Trans-Alaska Pipeline System (TAPS) oil line should be used as a model of a successful large volume line that went to tidewater. He said that small in-state lines have been discussed before with the conclusion that they do not make economic sense. He furthered that a large volume line must go to tidewater. He expressed concern for the improper use of waste energy and that the project could harangue future generations with debt.

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MANNY ESCOBIDO, SELF, MAT-SU (via teleconference), testified in strong opposition to HB 4. He argued that the process of writing the bill had been rushed. He stated that in 2002 the state voted for a gasline to Valdez that had yet to come to fruition. He believed that the project would cost the state money with no economic return. He argued that it would be more economically sound to build the line on the existing corridor.

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JIM PLAQUET, SELF, FAIRBANKS (via teleconference), testified in support of HB 4. He related that SB 23 would be a short-term energy solution for Fairbanks, but that HB 4 would be the long-term affordable energy solution. He stated that HB 4 would provide gas to Alaskans at the lowest cost and without delay.

KARL GOHLKE, FRONTIER SUPPLY COMPANY, FAIRBANKS (via teleconference), testified in support of HB 4. He opined that the instate gas issue had been discussed over the last 60 years, without result. He stated that as a result of losing Elmendorf Air Force Base, the population of North Pole was dwindling. He stated that the state had committed \$500 million to Trans-Canada for its gas project and that nothing had come of it. He hoped that the project would not lose momentum.

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DAVE COBB, MAYOR, CITY OF VALDEZ, VALDEZ (via teleconference), expressed the City of Valdez's strong opposition to HB 4. He opined the short notice given to the public regarding the opportunity to testify on the legislation. He relayed that there were a number of people in his community that had not been able to testify on HB 4 during the hearing in Senate Resources, and he requested that the committee consider all the public testimony offered from that meeting. He relayed that the city had worked to provide the public with information on what they believed to be a bad bill. He asserted that a gasline project should serve to provide the most benefit to all Alaskans, which HB 4 did not. He stated that the small volume pipe proposed in HB 4 would raise the cost of energy in South-Central Alaska and would do nothing to address energy costs in rural Alaska.

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JOHN HOZEY, CITY MANAGER, CITY OF VALDEZ, VALDEZ (via teleconference), spoke the City of Valdez's strong opposition to HB 4. He stated that the bill had technical flaws that would prove dangerous to the state. He understood that people in support of HB 4, who preferred a large volume gasline project, were working under one of the following three assumptions: that both lines were reasonably possible so the state should get going on this one first, they have given up hope that a large line would ever happen and would chose an inadequate project over nothing at all, they believe that the small line could eventually morph into a large volume project that would include all of the necessary components currently lacking in the AGDC plan. He shared that he had personally met with representatives from two of the three major North Slope

producers who had agreed that only one gasline would be built in the next 20 years. He asserted that over the past several years a great deal of work had been done, and \$100's of millions of dollars had been spent, to advance a large volume gasline project through AGIA. He asserted that in an open season held in fall of 2012 letters of interest were received to purchase twice the amount of gas necessary to make a commercially viable. He stated that in February of 2013, all three of the major North Slope producers sent a letter to Governor Parnell stating that they had reached alignment on a large volume project. He believed that the stars were aligned for the right gasline to move forward. He noted that there were no provisions in the bill that would ensure an objective review of all project concepts and consequences before any new money was spent further developing the proposed line. He suggested that any testimony given that in any way referenced the value of, or desire for, a large volume gasline to tidewater should be considered testimony in opposition to HB 4. He urged the committee to refer to the technical points in the Walker-Richardson presentation.

Co-Chair Meyer noted that Mr. Walker would be given an extended amount of time to testify before the committee at a later date.

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LISA VONBARGEN, SELF, VALDEZ (via teleconference), testified against HB 4. She argued that the passage of SB 21 would result in an estimated reduction in annual revenue to the state of between \$350 million and \$1 billion. She said that the declining throughput had resulted in a drop in oil revenues from \$6 billion to \$4 billion per year. She believed that it would take a significant increase in throughput to bridge that gap. She explained that based on oil production activities in the U.S. it was unrealistic to believe that, despite the financial hit to the state, a revision to Alaska's Clear and Equitable Share (ACES) would bolster exploration and production and lead to increased throughput that would make up the revenue shortfall. She asserted that Alaska needed to be abreast of occurrences in the Bakken oil fields. She explained that oil from the Bakken was being shipped via rail in exponentially increasing quantities to West Coast refineries. She informed the committee that Bakken crude was sweeter than ANS crude, easier and cheaper to refine, and cheaper to transport. She concluded that the state of Alaska needed a

new revenue source and that a large volume line to tidewater with an export component was the only answer.

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MIKE WELLS, SELF, VALDEZ (via teleconference), testified against HB 4. He believed that the project as proposed under HB 4 was the wrong plan for Alaska. He stated that a small diameter line would not have the economy of scale to provide energy as feasibly as a large volume pipeline to tidewater. He stressed Alaska needed the jobs and industry that would be the result of gas liquids development. He shared that HB 4 protected the AGDC from judicial review and the public oversight critical for protecting consumers. He stated that the prospect of building two pipeline projects was remote and that the state should focus on the best project.

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MIKE WILLIAMS, SELF, VALDEZ (via teleconference), spoke against HB 4. He reiterated the testimony that Alaska should build a larger line in order to increase revenue. He stated that adding propane as an export component would require an increased size of the line. He believed that a small line would not be able to get cheap gas to the Interior of Alaska. He agreed that instate gas was important but that HB 4 was not the right solution. He asserted that cheap gas would never make it to coastal communities using a small line. He opined that the project would be exempt from the Open Meetings Act, RCA oversight; ADGC would make their own rates and the board would be able to dispose of assets with only 4 votes.

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LYNN CRYSTAL, SELF, VALDEZ (via teleconference), expressed his opposition to HB 4. He thought that Alaska was a small market and that large amounts of customers would be needed to pay for the project offered in HB 4. He expressed concern as to how the bulletline would be financed. He offered that the Rail belt already received the lowest energy costs in Alaska. He spoke of existing gas in Cook Inlet and wondered whether developing the small line was a waste of time and money.

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SHERI PEIRCE, SELF, VALDEZ (via teleconference), testified against HB 4. She cited Article 4, section 42.08.400 of the legislation, which spoke to public records and investigations. She read from the bill:

(b) The commission may by regulation classify records received from an in-state natural gas pipeline carrier or in-state natural gas pipeline as privileged records that are not open to the public for inspection.

(c) A record filed with the commission that is a precedent agreement between an in-state natural gas pipeline carrier and an unregulated entity is a privileged record that is not open to the public for inspection. For a record that relates to a precedent agreement, or is or relates to a contract other than a precedent agreement between an in-state natural gas pipeline carrier and an unregulated entity, if an in-state natural gas pipeline carrier identifies the provisions of the record that contain information that, if disclosed, could adversely affect the competitive position of the shipper or could cause commercial or competitive harm or damage if disclosed and the commission agrees, the information shall be treated by the commission as confidential.

(d) A person may make written objection to the public disclosure of information contained in a record filed under this chapter or of information obtained by the commission or by the attorney general under this chapter, stating the grounds for the objection. When an objection is made, the commission shall order the information withheld from public disclosure if the information adversely affects the interest of the person making written objection and disclosure is not required in the interest of the public.

She expressed concern that the language in the bill served to severely restrict the disclosure of records and information regarding the project, and could serve to prevent the disclosure of any personal financial interest in the project by a legislator, state commissioner, state employee or a member of the proposed regulatory commission.

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DAVE DENGEL, SELF, VALDEZ (via teleconference), spoke against HB 4. He stated that the bill was a dangerous diversion to draw attention and resources away from a gasline that would truly serve all Alaskans. He warned that HB 4 would not generate the revenue to finance the construction of the bulletline, nor would it contribute to future state general fund program requirements.

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JEREMY O'NEIL, SELF, VALDEZ (via teleconference), expressed opposition to HB 4. He expressed concern that the bill would not benefit all Alaskans. He stated that a low volume pipeline was not the best choice for all Alaskans and opined that it left nearly half the state still wanting for energy solutions. He believed that a constitutional argument could be made against the language "maximum benefit of all the people."

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JIM SYKES, SELF, PALMER (via teleconference), testified against HB 4. He discussed his work history on the issue and stated that the low volume pipeline would not work. He argued that the legislation would exempt the AGDC from public records laws and the RCA, effectively removing the checks and balances that the public, the governor and the legislature have come to expect for a publicly funded project. He stressed that HB 4 was not the pipeline answer for Alaska.

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JERRY CLEWORTH, MAYOR, CITY OF FAIRBANKS, Fairbanks (via teleconference), testified to the Fairbanks City Council's support of HB 4. He thought that it would be unfortunate to stop the progress of a gasline project, especially considering the leg-work that had already been done. He noted the resolutions from Kenai in support of the legislation.

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LUKE HOPKINS, MAYOR, FAIRBANKS NORTH STAR BOROUGH, FAIRBANKS (via teleconference), expressed concern with HB 4, but believed that an in-state gas-pipeline needed to be built.

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AT EASE

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RECONVENED

Co-Chair Meyer CLOSED public testimony.

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BARBARA HUFF TUCKNESS, DIRECTOR OF GOVERNMENTAL AND LEGISLATIVE AFFAIRS, TEAMSTERS LOCAL 959, expressed the Teamsters Local 959's support of HB 4. She encouraged the movement of the bill out of committee.

Co-Chair Meyer discussed housekeeping and future invited testimony.

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Vice-Chair Fairclough requested that Rena Delbridge speak to the bill.

4:07:00 PM

Vice-Chair Fairclough referred to the recent public testimony given by Sheri Peirce, and hoped that Ms. Delbridge could provide insight to the article that Ms. Peirce had spoken to.

RENA DELBRIDGE, STAFF, REPRESENTATIVE MIKE HAWKER, replied that the Ms. Peirce had referred to Page 51 of the bill, the RCA section. She stated that the section had the effect of declaring that records filed before the RCA were public records. She added that the exception was the Precedent Agreements, which were filed under seal as they would be contractual negotiations that were underway until conditions were solidified, at which time the precedents would evolve into firm Transportation Agreements that would automatically become public. She explained that there was a provision that allowed the redaction of commercially sensitive information, but that the RCA had to agree that the information was commercially sensitive and should be redacted.

4:09:20 PM

Vice-Chair Fairclough noted that there was testimony that the bill reflected a lack of RCA oversight. She understood that the latest version of the bill provided 3 months for the RCA to review the recourse tariff rates.

Ms. Delbridge responded that the bill included multiple levels of RCA scrutiny of different phases of a carrier's application as it progressed through commercial contracts. She listed a variety of reviews that the sponsors believed to be a strong regulatory framework. She offered that the framework did differ from the kind of regulatory framework that was generally used for public utilities.

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Vice-Chair Fairclough noted a reference in testimony suggesting an elimination clause in the bill, should the state prove unsuccessful in moving forward. She mentioned the 2004 Port Authority Report. She noted that people still continue to believe that a large diameter pipe was viable, including in an export market. She wondered about the request of interest.

Ms. Delbridge responded that AGDC's project as proposed could include an export component, but that it was not required and would be up to the buyers and sellers that wanted to have it shipped. She said that the contract negotiations with other markets would be up to the buyers and sellers.

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Vice-Chair Fairclough wanted to export, but commented that the price of gas and oil were different in terms of the return to Alaska. She said that with the AGIA umbrella it would be impossible for the return numbers to be high.

Ms. Delbridge believed that some of estimates on the value to the treasury of export pipeline gas were based on ACES. She said that the assumption under ACES had always been that that state would need to reset a gas tax should there be any development.

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Senator Hoffman requested that because the bill would be a long-serving document, a commitment should be given from the board that they would continue to work to get gas to

all Alaskans, and that language to that affect should be written into the legislation.

Ms. Delbridge responded that she would discuss the additional language with the sponsor.

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Senator Meyer requested further discussion on RCA oversight.

Ms. Delbridge believed that the RCA would need to be officially invited for testimony.

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Co-Chair Meyer related the need to discuss the fiscal notes at a future date.

Ms. Delbridge replied that both she and other support staff could walk the committee through the fiscal notes.

Co-Chair Meyer requested any possible amendments be presented to him for discussion before the next hearing of the bill

[4:18:04 PM](#)

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

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ADJOURNMENT

The meeting was adjourned at 4:18 p.m.