

SENATE FINANCE COMMITTEE
April 10, 2013
2:18 p.m.

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CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 2:18 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

Rena Delbridge, Staff, Representative Mike Hawker; Frank Richards, Manager, Pipeline Engineering, Alaska Gasline Development Corporation; Representative Mike Hawker; Representative Mike Chenault

PRESENT VIA TELECONFERENCE

Ken Vassar, General Counsel, AGDC; Joe Dubler, Vice President and Chief Financial Officer, Alaska Gasline Development Corporation and Director of Finance, Alaska Housing Finance Corporation, Department of Revenue

SUMMARY

SB 13 KNIK ARM BRIDGE AND TOLL AUTHORITY

SB 13 was SCHEDULED but not HEARD.

CS HB 4(FIN) ALASKA GASLINE DEVELOPMENT CORP; RCA

CS HB 4(FIN) was HEARD and HELD in committee for further consideration.

#HB 4

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 welcomed guests from a charter school in Palmer, Alaska to the committee room.

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Senator Dunleavy clarified that the guests hailed from Academy Charter School in Palmer, Alaska. He added that the students and staff made an annual trip to the capitol in an effort to give students a closer look at the inner-workings of state government.

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Co-Chair Meyer noted that the bill under discussion could provide the students with affordable energy in the future.

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FRANK RICHARDS, MANAGER, PIPELINE ENGINEERING, ALASKA GASLINE DEVELOPMENT CORPORATION, referred to the previous day's discussion by William Walker and Craig Richards of Walker Richards LLC titled, "City of Valdez Presentation on the In-State Gas Pipeline Bill"(copy on file). The presentation had provided one perspective of the cost estimate for HB 4. He reviewed that HB 369 had been a legislative action offered in 2010 that had created the Alaska Gasline Development Corporation (AGDC) in order to advance the in-state natural gas pipeline and would bring natural gas from the North Slope to Fairbanks and South-Central Alaska. He said with funding from the legislature under HB 369, AGDC hired experts in the necessary fields in order to advance the project design from a concept to written plan. He shared that the methodology used in crafting the plan was created by the Association for the Advancement of Cost Engineering (AACE), which set out methodology for process engineering that was used industry-wide. He explained that following the process of AACE, AGDC had developed a cost estimate for the project. He highlighted that at that time the project had focused on a "rich-gas", 24 inch, high-pressure pipeline. He stated that a cost estimate of \$7.5 billion, plus or minus 30 percent, had been determined based of the level of engineering available at the time. He furthered that contingencies had been built into the estimate because the engineering had yet to be advanced far enough in order to determine a conclusive cost estimate. He relayed that AGDC had considered plus or minus 30 percent for the facility; 5 percent for the pipeline.

Mr. Richards continued that in 2012, while the environmental impact statement (EIS) was being completed, AGDC updated the project plan. He stated that the update

shifted the project from a "rich gas" case to a "lean gas" case. After revisiting costs and examining the process using the AACE methodology, AGDC increased the contingency for the pipeline from 5 percent to 10 percent and left the 30 percent contingency on facilities. The cost estimate in 2012 was approximately \$7.7 billion. He noted the increase of approximately \$200 million was due to the inflation factors associated with the facilities. The revised project plan reflected a \$7.7 billion cost estimate along with the major features of the gas conditioning compressor station, the pipeline route from the North Slope to Dunbar, a lateral to Fairbanks, and again from Dunbar down to Cook Inlet. He stressed that the new project plan had been crafted under industry standards and practices by engineering companies used by both AGDC and Oil and Gas producers in the state. He stated that the aforementioned engineering companies were Alaska based, with experience on the North Slope, and had been conducting major process and pipeline work across the state for decades. He stated that the project had been given a class four estimate based on the AACE methodology. He believed that as the work advanced, refined engineering would result in the state holding an open season with a class three estimate.

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Senator Bishop understood that all parties involved were working to keep the cost of the pipeline as close to the estimated projections as possible.

Mr. Richards replied in the affirmative.

Senator Bishop surmised that completing the project for the estimated cost would ensure lower overall tariff and toll cost.

Mr. Richards replied that lower total installation costs would result in a lower tariff.

Senator Bishop spoke of natural gas projects in other areas of the world that had doubled in cost while under construction. He urged AGDC to keep all options open when executing contracts and to carefully consider the use of multiple project labor agreements as a way of controlling project costs.

Mr. Richards replied that the major factor for the tariff would be the total cost for the project. He said that AGDC would work diligently to get through an open season in order to identify for potential shippers and buyers what the costs will be. He stressed that AGDC would use all of the tools available to advance the project. He added that the labor, materials, process and plant costs would be considerable, and that AGDC would do everything it could do to keep the costs down.

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Senator Bishop hoped that a project labor agreement would be part of the equation.

Mr. Richards replied that project labor agreements would be reviewed as they became available. He stressed that as the corporation moved through an open season, and looked toward an ownership model, project labor agreements would be considered one of the tools that would be used when working with project partners.

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Senator Bishop remarked that that it would be unfortunate for the project to come in at twice the estimated cost; however he warned that the scope of tools necessary to make the project successful should not be limited in an effort to come in under budget.

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Senator Olson referred to the previous day's testimony (4/09/13). He understood that upon completion of the project the only entities that would be putting gas into the pipeline would be ConocoPhillips, Exxon Mobil and British Petroleum.

Mr. Richards replied he was not the expert concerning ownership of the Prudhoe Bay units; however, the shippers of the gas would be the entities that had gas available on the North Slope. He deferred further comment to the Department of Natural Resources.

Senator Olson expressed concern that the Oil and Gas company, Shell, would not be able to put gas in the line if

the three aforementioned entities put gas into the line first.

RENA DELBRIDGE, STAFF, REPRESENTATIVE MIKE HAWKER interjected that anyone that had gas could participate. She admitted that Exxon Mobil, British Petroleum and ConocoPhillips presently had gas in the Prudhoe Bay unit and were using it for greater recovery of oil; most oil found on the slope had gas associated with it. She listed the companies currently exploring in the area that could participate in the project if they had gas to move off of the slope. She stated that the only limitation that existed was whether or not the pipeline was able to expand in the future under the Alaska Gasline Inducement Act (AGIA). She hypothesized that when Shell was ready and the state was no longer bound by AGIA the pipeline could expand under commercially reasonable terms.

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Senator Olson gathered that there would be room in the pipeline for Shell gas if Shell found commercially viable gas during off-shore exploration.

Ms. Delbridge replied that provided that there was no violation of AGIA, there would be an expansion of the pipeline to support the additional gas.

Senator Olson asked if Shell would be accommodated under the same rates as the other producers.

Ms. Delbridge said that the cost of the expansion would be paid for by the person wanting the expansion. She deferred to AGDC for further explanation.

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Co-Chair Meyer understood that there were currently six producers exploring on the North Slope.

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Senator Dunleavy wondered about the potential gas in Nenana that could possibly be put in the pipeline.

Ms. Delbridge responded that Nenana was beneath the 68th parallel and might not be subject to capacity constraints

under AGIA; it was possible to add additional capacity to a pipeline to bring gas from Nenana to market.

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Vice-Chair Fairclough requested the explanation of any acronyms used during the discussion. She noted for visiting students in the gallery that the committee was discussing whether it was best for the state to move forward with a smaller pipeline, or should the state wait until a bigger line could be built. She requested a discussion on access; specifically, language in the bill pertaining to common carriers versus the contract carriers. She voiced concern that the three corporations that currently had oil in the Trans-Alaska Pipeline (TAPS) would control interest in a gas pipeline.

Ms. Delbridge addressed the allegation made during the Valdez presentation that suggested that HB 4 violated the terms of AGIA because of design capacity. She asserted that the ultimate finding of the legal opinion cited in the Valdez presentation stated that the specific language of AGIA required the state to limit support of other projects design capacity. She contended that AGDC had been careful to design a project that was not in violation of AGIA. She stressed that the Department of Law (DOL), Legislative Legal and attorneys for AGDC had reviewed the opinion language to ensure AGIA was not violated. She added that the state believed that TransCanada was in compliance with its license and had made no allegation to the contrary.

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KEN VASSAR, GENERAL COUNSEL, AGDC (via teleconference), testified that there was nothing written in HB 4 that violated the terms of AGIA. He furthered that the corporation would comply with AGIA until AGIA was officially no longer in effect.

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Vice-Chair Fairclough wondered how the project would move forward under another leader, rather than AGDC. She queried how the administration would handle outside parties inquiring of TransCanada whether the state was in violation of AGIA.

Ms. Delbridge replied that if the state were compliant it would make it unnecessary for other parties to question TransCanada. She believed that state commissioners and TransCanada would determine whether the state was compliant.

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Mr. Richards furthered that the governor had been clear in stating that AGDC was to work cooperatively with TransCanada, the Alaska Pipeline Project and the South Central Liquefied Natural Gas (LNG) Project. He said that discussions with those companies were ongoing. He noted that the specifics of the dialogue were not entirely transparent due to issues of confidentiality, but that the corporation was working cooperatively with those entities.

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Senator Dunleavy asked if AGIA limited the size of the pipe, or the volume moving through the pipe.

Ms. Delbridge read the definition of a competing natural gas pipeline project, per AGIA:

"A project designed to accommodate throughput of more than half a billion cubic feet a day of North Slope gas to market."

Ms. Delbridge relayed that the design and the gas running through the pipe were not mutually exclusive.

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Senator Dunleavy queried whether the size of the pipe would dictate if the state was in violation under AGIA.

Ms. Delbridge replied that the AGIA statute clearly stated "a pipeline project" and referred to the actual pipe plus the facilities related to that pipe.

Mr. Richards elaborated that when AGDC looked at the modifications to the project design, a trade-off between pipe diameter, pressure, compression, and processing ability were all examined. He reiterated that the ceiling for the project was 500 million cubic feet per day flow through the pipe, which included the processing of the gas

and the compression of the gas. He said that to reach the lowest tariff for in-state Alaska use the corporation had examined various pipe diameter sizes and the overall cost associated with the different sizes. He stated that the 36 inch diameter pipe had been determined to have the lowest cost for the project.

Senator Dunleavy thought that the question over pipe size for future capacity could cause division between interested parties in the future. He expressed the desire to understand whether the pipe size could be increased under HB 4 in the future without violating AGIA.

Ms. Delbridge answered that rates had to be cost based under the regulatory framework. She said if the pipe diameter was larger than necessary for the amount of gas being shipped there could be challenges surrounding cost recovery. She believed that the final word concerning whether or not that would work under the terms of AGIA would be given by attorneys from DOL and AGDC.

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Senator Olson directed attention to Page 37, line 17 of the legislation. He noted that the Regulatory Commission of Alaska (RCA) would play a prominent part during initial construction, but after time the participants would be left under their own direction.

Ms. Delbridge shared that the RCA would play a prominent role in the early stages because that was when the contracts would be made that would govern the pipelines relationship with its customers. She said that at any point at which an expansion was wanted and access to the pipeline was sought, the RCA would be brought back in to start the process over again. She stressed that one of the points that had been raised was whether or not people had access; the regulatory structure, coupled with the requirements in the state right-of-way lease covenants, required mandatory expansions on commercially reasonable terms provided that those do not violate AGIA. She stressed that there was access to the pipeline under HB 4; open seasons would be conducted fairly and capacity would be awarded on a non-discriminatory basis. She contended that nothing in the regulatory framework of the bill changed the way that the RCA currently regulated public utilities or common carrier oil pipelines. She relayed the regulatory framework should

address that the state had never had a major natural gas transportation pipeline. She said that the framework in the bill was closely modeled on the Federal Energy Regulatory Commission (FERC) process for regulating contract carrier gas pipelines in the Lower 48. She noted that terms used in previous testimony were special terms FERC had for one pipeline, an overland pipeline from Alaska to the Lower 48, and in part were added because the Lower 48 project had sparked national interest. She agreed that there was no way that there would ever be two Lower 48 natural gas pipelines built from Alaska. She noted that there was a competitive market in the Lower 48, which was why the sponsors of the legislation made sure to require an open season for any Alaska natural gas pipeline project. She said that the language would ensure that there was access to everyone at an RCA approved initial recourse rate. She furthered that the upfront approval of the initial recourse rate, coupled with the open season procedures, included the same requirements as the FERC open season procedures for a Lower 48 Alaska gas pipeline. She listed the open season procedures: open season procedures had to be noticed up front in the initial recourse tariff, reasonable notice of the open season must be given, initial approved recourse tariff must be listed and final precedent and firm service agreements must be shared. She continued that companies had to define the route, capacity, operating pressures, in-service date, and quality specifications for the gas and how capacity would be awarded. She stressed that all the procedures would have to be non-discriminatory.

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Ms. Delbridge cautioned against comparing the project to TAPS. She stated that TAPS was an oil pipeline and a common carrier with multiple tariffs on the one pipeline. She furthered that TAPS was jointly regulated by a state body and a federal body, and that the concept of rate based tariffs had been complicated by state settlements. She shared that under HB 4 the gas pipeline would be governed by firm contracts. She said that there were no settlement methodologies or rate cases that extended out for years. She spoke to the concern that the three large oil companies on the North Slope would increase the tariffs in order to reduce the well head value of the gas for purposes of production tax calculations. She pointed out that the legislation expressly prohibited a tariff increase on Page 50, line 30 through Page 51, line 1. She noted under HB 4

tariffs would have to be RCA approved, cost based tariffs. She said the tariffs must have a reasonable rate of return, reasonable capital structure and a reasonable depreciation method. She added that tariffs could be negotiated but if contracts looked suspicious, particularly between affiliated parties, the RCA would scrutinize them more closely.

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Senator Olson restated his question concerning the level of RCA oversight.

Ms. Delbridge specified that under the legislation the contracts approved by the RCA would govern the business of gas moving through the pipeline. She reiterated that if someone wanted to pay to expand the line that the RCA could order the expansion.

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Senator Olson expressed concern that current producers on the North Slope could control the gas and the corridor down to tidewater. He felt that so much control could lead to a monopolization of the price of gas.

Ms. Delbridge did not believe that a monopoly scenario was plausible under the regulatory framework of the bill.

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Senator Hoffman understood that RCA could order the expansion, should it be requested. He wondered if the expansion could be ordered without regard to the limitations of AGIA.

Ms. Delbridge replied no, an RCA expansion would not violate AGIA.

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Senator Olson surmised that there would be public money going into the project which would include acquired assets; the assets could be from a corporation such as AGDC or the physical assets attached to the project. He wondered who would own those assets 5 to 10 years after completion of the pipeline.

Ms. Delbridge replied the HB 4 was structured so that assets owned by AGDC would be managed by the corporation, including sale or transfer. She said it would be up to AGDC to manage the assets in a way that helped them meet their mission of getting gas to Alaskans at the lowest possible rate.

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Vice-Chair Fairclough wondered about rolled-in rates and the FERC exemption.

Ms. Delbridge replied that with rolled-in rates the cost of expansions would be shouldered by the shippers. She said that with incremental rates, the person using the space would pay for the expansion of the space. She stated that with new capacity whoever was creating the need for the expansion would be responsible for the costs. She related that the rolled-in rates were important to people under AGIA. She relayed that industry had testified that the financial burden related to the initial cost of the pipeline would make them unable to sign on to a project requiring rolled-in rates. She stated that the reason for that was because upon signing a contract for a specific amount of space in a pipeline, over a period of twenty or thirty years at a given rate, the expectation was that the contractual rate would be used in calculating payment. She stressed that the nature of contractual commitments on a natural gas pipeline prohibited the rolled-in rate concept. She reminded the committee that previous testimony had suggested that FERC required rolled-in rates on a Lower 48 pipeline. She clarified that FERC had stated that it would make a rebuttable presumption concerning rolled-in rates, which could be challenged in the future. She asserted that the sponsors of the bill felt that the users should pay; those that would be creating the cost of expansion should be held financially responsible.

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Senator Bishop understood that under HB 4, a new entrant could get the gas in under the recourse rate plus the cost of expansion.

Ms. Delbridge asked if the conversation could continue under the assumption that compliance under AGIA was not an issue.

Senator Bishop agreed.

Ms. Delbridge related that under HB 4 an initial recourse rate would need to be set before going into an open season for expansion. She reiterated that the user of the space would pay for the space.

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Vice-Chair Fairclough inquired if the recourse rate was different if there was existing capacity in the pipeline. She asked if only the 250 million cubic feet were moving through the pipeline, and a pipeline were to proceed, would the recourse rate have an expansion in it or would there be two rates.

Ms. Delbridge clarified that if only 250 million cubic feet subscribed in an open season AGDC would need to reengineer the project. She said that if the volume decreased the rates would double; however, reengineering the project could save the doubling of costs. She furthered that if there was available capacity; if 10 percent of the line was not subscribed, but that the subscriptions were enough to finance the project, space would be available. She added that the carrier would be required to tell others that the space was available. She shared that if an entity wanted in on the extra space they would need to be sure that the recourse tariff was updated and hold and open season.

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Vice-Chair Fairclough understood that the tariff and the expansion rate of one large pipeline would cost Alaska more than a smaller line.

Ms. Delbridge felt that the senator was on the right track. She clarified that the initial recourse tariff included capital costs, as well as ongoing operation and maintenance costs of the entire line, which would be spread among the pipeline users. She relayed that the rate for the expansion would be more than a functional cost of the capital expansion.

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Vice-Chair Fairclough inquired how the expansion would be handled; would the state alert people that an expansion was

pending and ask whether a group wanted to be on board in order to lower fixed costs.

Ms. Delbridge replied that any request for an expansion would result in another open season notification; every time pipeline capacity was increased, anyone who wanted to participate would have the opportunity.

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Vice-Chair Fairclough asked how the recourse rate would be set if the pipeline were at capacity without the possibility for expansion under the terms of AGIA.

Ms. Delbridge said that the recourse tariff would not be necessary under that scenario. She stated that the state would have contracts that would govern the shippers. She added that if there was a small bit of pipeline that the carrier had that was not for contract, they would need to offer a short-term interruptible service, and then the state would need an updated recourse tariff that reflected actual costs.

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Senator Bishop believed that AGDC would need to reengineer the line after an open season in order to reach the goal of bringing gas to Alaskan's at the most affordable rate.

Ms. Delbridge agreed. She said that AGDC would need to reengineer and assess whether the new estimates for a 250 million cubic foot line had tariffs that were competitive for Alaskans.

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Senator Olson noted that there was no language in the title that stated that the line was to bring gas to Alaskan's at the "most affordable rate." He asked if the pipeline were to be contracted at the maximum capacity under the permit, a half a million cubic feet per day, would that limit other companies from putting gas in the line.

Ms. Delbridge responded that it would depend on whether or not the size was constrained by AGIA. She added that with AGIA in place the line could not exceed a half a million

cubic feet per day. She said that AGDC had the power for expansion once AGIA was not "in the way."

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Senator Olson understood that under AGIA a second open season could not be held to put more gas in the line.

Ms. Delbridge replied in the affirmative.

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Senator Olson surmised that Shell coming on with more gas off the Chuckchi or Beauford Seas would not be able to put it in the line.

Ms. Delbridge responded that it would depend whether or not AGIA was still in effect.

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Senator Olson thought that Shell would have gas long before the AGIA sunset date.

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Vice-Chair Fairclough thought a further discussion on FERC could be helpful, as well as further discussion of export volumes.

Ms. Delbridge said that FERC regulatory jurisdiction had not been addressed. She pointed out that on Page 36, lines 24 through 28 of the bill, the language clearly stated that if there was an in-state natural gas pipeline that was subject exclusively to federal jurisdiction, the chapter did not apply. She furthered that the state could not tell FERC to regulate the line. She said that FERC had jurisdiction in some cases and not in others and FERC would make the decision on jurisdiction in cases where there could be discession involved. She stated that generally, if there was an in-state natural gas pipeline with no export then there was no FERC jurisdiction. If there was an in-state pipeline with an export component, FERC may have jurisdiction under certain scenarios. She furthered that it could depend on where the gas was being shipped. She stressed that FERC would not share jurisdiction but would

regulate the entire line including the in-state volumes if they decided to regulate the pipeline.

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Mr. Richards added that FERC would be required to assert jurisdiction for the LNG facility. He stated that the current AGDC pipeline could conceptually deliver gas from the North Slope into the Beluga pipeline at mile 29. He concluded that there was not a LNG component associated specifically with the AGDC project.

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Senator Bishop asked if there was language in the bill to assure that an in-state rate could be negotiated early so that it was not elevated with the LNG export rate once it left tidewater.

Ms. Delbridge responded that there was nothing about AGDC that would address the commodity price of the gas. The corporation was a pipeline shipper, focused strictly on shipment of the gas. She explained that people selling gas to in-state customers would negotiate a price for sale of the gas, and people selling gas to a foreign market would negotiate the price of that particular gas.

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Senator Olson wondered if there were any legal questions surrounding the issue of state ownership and regulation of the gasline.

Ms. Delbridge replied that there were no legal questions that had been brought to the sponsor's attention. She said that the RCA was part of state government and a quasi-judicial body and AGDC was a stand-alone, independent corporation of the state.

Vice-Chair Fairclough solicited closing comments.

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JOE DUBLER, VICE PRESIDENT AND CHIEF FINANCIAL OFFICER, ALASKA GASLINE DEVELOPMENT CORPORATION AND DIRECTOR OF FINANCE, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE (via teleconference), explained the three proposed

changes in the current legislation. He relayed that the first change could be found in Section 3, page 9 of the legislation and would allow for AGDC to hedge material prices for building the line in an effort to curb price inflation. He noted that the change had been vetted by both DOR and DOL.

Vice-Chair Fairclough queried when the capital expenditure costs would be presented to the legislature, or was it inside the existing appropriation request.

Mr. Dubler responded that that the funds were not included in the appropriation request. He said that the funds would come from bond proceeds or equity contributions from owners and co-owners of the project.

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Ms. Delbridge interjected that the costs would be part of the project costs and would not require an additional appropriation from the state.

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Mr. Richards furthered that the time to order the steel would be after the decision to proceed with project sanction.

Vice-Chair Fairclough understood that would mean an open season had been held and contracts had been secured that would be bondable assets to acquire capital in the market.

Mr. Richards replied yes.

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Mr. Richards referred to FN3, which had accompanied the bill from the other body, and had been changed from \$330 million to \$250 million. He explained that the level of effort to get to the project sanction was \$330 million.

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Senator Meyer remarked that the pipe size of the project was limited by AGIA. He assumed that to get out of the AGIA contract would result in treble damages, which would be cost prohibitive.

Mr. Richards deferred to the DOL or the attorney for AGDC. He added that AGIA was the "law of the land" that governed the corporation.

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Co-Chair Meyer understood that there was a way out of the AGIA agreement but that it was expensive.

Mr. Richards relayed that there was more than one way to get out from under the terms of AGIA.

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Vice-Chair Fairclough felt that the project should move forward under AGIA. She believed that the goal should be to get enough gas to build a larger pipeline based on the contract carriage proposed in HB 4. She thought that the framework would allow the state to move enough gas to attract investors. She stressed that supporters of the legislation were not trying to circumvent the AGIA project, but believed both were on the table for Alaska's advantage.

Ms. Delbridge agreed.

Mr. Dubler continued to discuss the proposed changes. He directed committee attention to Page 9. He said that the change would strike all of the language on line 15, after "obligations" and continue through "available" on Page 16. He said that the removal would allow the corporation to borrow construction funds for more than one year.

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Mr. Dubler continued to Page 23, line 7. He relayed the word "pending" through to the end of the paragraph would be removed. He remarked that the current language restricted the type of investment that the corporation would be allowed to make in a refunding transaction.

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Mr. Richards referred to FN3, dated April 1, 2013. The note identified an FY14 appropriation for \$225 million.

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Mr. Richards continued to discuss FN3. He said that the appropriation would capitalize the in-state natural gas fund with \$225 million Alaska Housing Capital Corporation receipts, including the governor's \$25 million capital request for Alaska Housing Capital Corporation receipts. He spoke to the need for full funding of the project. He said that the corporation had identified in the 2011 and 2012 project plans the amount of funds that would be necessary in order to drive the project through an open season and on to project sanction. He stressed that the need for full funding through the open season to get to the level of detail necessary, which would take design engineers, process engineers, environmental and regulatory people, and others. He said that the assembled team would be the people working for the next year and a half to get the state to an open season. He stressed the importance of working through the process of a post open season when AGDC would be getting ideas or requirements from the shippers and the buyers of the gas concerning any modifications to the project. He stated that the key would be to retain the consulting staff in order to push the project through without losing momentum during the post open season hiatus. He said that the work that would be going on after the open season would be a continuation of regulatory work. He shared that the pipeline Hazardous Materials and Safety Administration, which was a division of the federal Department of Transportation, would require AGDC to have a testing program for pipe samples and full pipe segments.

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Senator Bishop queried the whether the pipeline would be strain-base tested.

Mr. Richards replied that the pipeline had a safety administration through the U.S. DOT which had made the determination that a natural gas pipeline in Alaska would be strain-based design.

Mr. Richards stated that in addition to the Hazardous Materials and Safety Administration, AGDC would have to work with the Department of Homeland Security and the Transportation Security Administration on the security aspects of the project.

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Mr. Richards reiterated the importance that the project received full funding.

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Senator Hoffman stated that he was trying to reconcile FN3 with a report that the committee has received in January 2013 titled, "ASAP Project Plan Update Year-End 2012" (copy on file). He cited Page 5, figure 1.3, which listed the AGDC recommendation status as of July 2011:

"The State of Alaska should appropriate \$210 million⁴ to complete the next phase of the project design development, recognizing that approximately \$130 million more will be required either through capital funding or financing to complete the design before project approval (sanction).

⁴Assumed approval of \$29 million appropriation by 27th Alaska Legislature."

Senator Hoffman wondered how the update from January compared to the current fiscal note and to Mr. Richards testimony.

Mr. Richards responded that Page 5 of the report listed the July 2011 recommendations for the project plan.

Senator Hoffman pointed out the report containing the recommendation was dated January 2013.

Mr. Richards explained that the purpose of the section had been to identify the prior recommendations that had come out of the original project plan in July 2011, and compare them to what had happened, or not, subsequent to that.

Senator Hoffman interjected that the report reflected that in December 2012 the funds had not been appropriated, and as a result, AGDC had not been able to pursue the detailed engineering required to refine project costs estimates and hold an open season. He assumed that the July numbers were the same as the numbers in December 2012. He asked how the numbers related to FN3, what was needed, and the difference between the \$25 and \$29 million.

Mr. Richards replied that from July of 2011 to April 2013, project advancement had resulted in a request for more money.

Senator Hoffman inquired what had happened between December 2012 and January 2013 that altered the numbers. He noted that the footnote had not changed from July 2011 to December 2013 and wondered what had changed from December 2012 to April 2013 that altered the request.

Mr. Richards replied that in that section of the report AGDC had been trying to identify what had been originally proposed and where they stood now that no funds had been appropriated to push through with the detailed engineering.

[3:44:59 PM](#)

Senator Hoffman understood that in July 2011 AGDC was asking for \$29 million, which was then reduced by \$4 million, and now AGDC was asking that additional money be appropriated so that the corporation did not have to come back before the legislature.

Mr. Richards replied that Page 7 of the report identified the stage-gate process that had been presented to the legislature. He pointed out the graph on Page 7 making reference to the left hand portion identified as, "FEL (front end loaded) Phase 1"; this first phase was expected to cost \$30 million. He furthered that FEL Phase 2 was expected to cost \$240 million and FEL Phase 3, \$130 million. He reiterated that \$72 million in appropriations had been received for the project through the end of 2013, but in order to push forward through to phase 3, the additional \$330 million was necessary. He stressed that the plan was one of efficiency and the lowest possible cost to Alaskans.

[3:46:39 PM](#)

Senator Bishop turned committee attention back to Page 5 of the report. He requested clarification on whether the federal right-of-way was lacking by 90 miles.

Mr. Richards responded that the federal right-of-way with The Bureau of Land Management (BLM) was approximately 100 miles.

Senator Bishop asked if the state was still waiting on the right-of-way.

Mr. Richards answered that the decision of the BLM was pending and was expected any day.

[3:47:32 PM](#)

Ms. Delbridge remarked that the sponsors were in support of full funding for AGDC because it would make the state look like they could follow through with the same fiduciary commitments to the project that would be asked of the private sector.

[3:49:48 PM](#)

RECESSED

[4:53:22 PM](#)

RECONVENED

Co-Chair Meyer continued the discussion surrounding the fiscal notes.

[4:54:10 PM](#)

Mr. Richards stated that there were two notes accompanying the bill. The first note was FN2, dated April 1, 2013.

[4:55:10 PM](#)

AT EASE

[4:56:25 PM](#)

RECONVENED

Mr. Richards continued to discuss the fiscal notes. He stated that FN2 identified the costs for AGDC and other agencies involved. The figures represented the cost of the total project through an open season. He stated that the funding for FY14 through FY19 would support staffing and the regulatory process for AGDC. He noted that the attachment to the note detailed how the funds would be spent by each agency each fiscal year.

[4:59:13 PM](#)

Mr. Richards looked at FN3, which highlighted the \$225 million that would be used to capitalize the pipeline fund

and would allow AGDC to advance the project through to an open season. He said that the net of the two fiscal notes was approximately \$250 million.

[4:59:51 PM](#)

Co-Chair Meyer noted that the fund source for FN3 would be the Alaska Housing Finance Corporation (AHFC).

Mr. Richards replied that the fund source was from the Alaska Housing Capital Corporation receipts.

[5:01:02 PM](#)

REPRESENTATIVE MIKE HAWKER, thanked the committee for hearing the legislation. He stressed the importance the process of the project not be disrupted. He warned that any disruption would further increase risk, delay, project costs and uncertainty. He believed that full funding would protect against such disruptions. He testified that the state's money was well protected by the governance provisions that had been incorporated into HB 4. He believed that the legislation contained strong governance provisions that would protect Alaskans while putting forth a project that was appropriate and in the best interest of the state.

[5:04:38 PM](#)

REPRESENTATIVE MIKE CHENAULT, felt that by fully funding the project the legislature would give AGDC the opportunity to complete the project successfully through to an open season. He expressed concern that not fully funding the project now would result requests to the legislature in the future. He felt enough time had been spent developing the project and urged the committee to support the project with full funding.

[5:07:10 PM](#)

Co-Chair Meyer solicited further committee discussion.

[5:08:03 PM](#)

Vice-Chair Fairclough relayed that many people who testified earlier in the week had expressed concern that moving HB 4 forward would mean the elimination of the possibility of a large pipeline.

Representative Chenault did not believe that the bill would stop any project from moving forward. He said that the

governor was intent on the AGIA process. He thought that the project in HB 4 could morph into a bigger project, which he believed was what all Alaskans wanted. He said that the state would not be able to decide how big the pipe would be unless they had the money to pay for the entire project. He reiterated that the legislation proposed that the buyers and sellers put together the contracts in order to pay for the project and move it forward.

[5:12:13 PM](#)

Representative Hawker echoed Representative Chenault's comments. He stressed that there was nothing in HB 4 that would eliminate or compromise the possibility of a large capacity pipeline. He thought that the legislation had been misinterpreted by the opposition. He stressed that HB 4 was built around the base-case pipeline project design that was limited under AGIA. He added that in the larger sense HB 4 would provide the state the tools necessary to participate in a larger pipeline project should it become a reality. He noted that the only other pipeline project that he believed viable to move forward was the AGIA project, and he emphasized that HB 4 and AGIA could work in tandem. He concluded that it was time a gasline was built. He believed that once the state took the steps to build a line the design would fall into place and be successful due to the diligence, vision and entrepreneurship of Alaskans to create economically viable plans for distribution from region to region.

CS HB 4(FIN) was HEARD and HELD in committee for further consideration.

#sb13

SENATE BILL NO. 13

"An Act relating to bonds of the Knik Arm Bridge and Toll Authority; relating to reserve funds of the authority; relating to taxes and assessments on a person that is a party to an agreement with the authority; and establishing the Knik Arm Crossing fund."

SB 13 was SCHEDULED but not HEARD.

#

ADJOURNMENT

[5:17:11 PM](#)

The meeting was adjourned at 5:17 p.m.

