

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 5, 2013

1:30 p.m.

MEMBERS PRESENT

Senator Mike Dunleavy, Chair
Senator Peter Micciche, Vice Chair
Senator Donald Olson
Senator Bert Stedman
Senator Johnny Ellis

COMMITTEE CALENDAR

SENATE BILL NO. 37

"An Act extending the termination date of the Statewide Suicide Prevention Council; and providing for an effective date."

- MOVED SB 37 OUT OF COMMITTEE

SENATE BILL NO. 23

"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: SB 37

SHORT TITLE: EXTEND SUICIDE PREVENTION COUNCIL

SPONSOR(S): SENATOR(S) FAIRCLOUGH

01/25/13	(S)	READ THE FIRST TIME - REFERRALS
01/25/13	(S)	L&C, FIN
02/05/13	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)

BILL: SB 23

SHORT TITLE: AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/16/13	(S)	READ THE FIRST TIME - REFERRALS
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01/16/13 (S) L&C, FIN
01/31/13 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
01/31/13 (S) Bills Previously Heard/Scheduled
02/05/13 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

SENATOR ANNA FAIRCLOUGH
Alaska State Legislature
Juneau, AK

POSITION STATEMENT: Sponsor of SB 37.

KATE BURKHART, Executive Director
Statewide Suicide Prevention Council
Juneau, AK

POSITION STATEMENT: Reported on the council's progress on the recommendations made by Legislative Audit and answered questions about the fiscal note for SB 37.

TED LEONARD, Executive Director
Alaska Industrial Development and Export Authority
Department of Commerce, Community and Economic Development
Anchorage, AK

POSITION STATEMENT: Introduced SB 23 on behalf of the administration.

MARK DAVIS, Deputy Director
Alaska Industrial Development and Export Authority
Department of Commerce, Community and Economic Development
Anchorage, AK

POSITION STATEMENT: Provided a sectional analysis for SB 23.

GENE THERRIAULT, Deputy Director
Alaska Energy Authority
Department of Commerce, Community and Economic Development
Anchorage, AK

POSITION STATEMENT: Provided supporting information related to SB 23.

ACTION NARRATIVE

1:30:43 PM

CHAIR MIKE DUNLEAVY called the Senate Labor and Commerce Standing Committee meeting to order at 1:30 p.m. Present at the call to order were Senators Stedman, Micciche, Ellis, and Chair Dunleavy. Senator Olson arrived soon thereafter.

SB 37-EXTEND SUICIDE PREVENTION COUNCIL

[1:30:55 PM](#)

CHAIR DUNLEAVY announced the consideration of SB 37.

SENATOR ANNA FAIRCLOUGH, sponsor of SB 37, said the Statewide Suicide Prevention Council was created in 2001 and changed numerous times since then. Over the last four years, the legislature has added different voices to the council and created a strategic plan to look at the issue of suicide. For many years Alaska has had the unfortunate distinction of being number one in the nation for suicide; it's a plague in both urban and rural areas. SB 37 proposes to extend the Statewide Suicide Prevention Council until 2019.

[1:38:21 PM](#)

KATE BURKHART, Executive Director, Statewide Suicide Prevention Council, said her testimony was to inform the committee of the Council's progress on the recommendations made by Legislative Audit and to answer questions about the fiscal note for SB 37. She expressed appreciation for the work that Legislative Audit did last year to inform the legislature about the council's work, which led to improvements on the council.

Legislative Audit's first recommendation was to rectify the fact that the council had not previously appointed or evaluated her as executive director/coordinator. The council participated with the executive committees of the Alaska Mental Health Board (AMHB) and the Advisory Board on Alcoholism and Drug Abuse (ABADA) late last year to conduct her evaluation and establish a process by which to do it every year in December.

Legislative Audit also recommended that the council memorialize its current leadership and resource sharing arrangement with the Alaska Mental Health Board and the Advisory Board on Alcoholism and Drug Abuse to ensure that when leadership changes those practices continue in order to support the council. Early in 2013 the three entities executed a memorandum of agreement to memorialize how business is done and to reiterate the council's commitment to assume responsibility for its financial needs to the greatest extent possible. She noted that the other two boards currently support much of the council's operations.

The third recommendation was for the council to develop performance measures that support the council's statutory duties

and submit annual progress reports. She said the council is working toward complying with that recommendation. The council has performance measures clearly articulated in the state plan and will report on those in the implementation report that is due in several weeks. The council is working with the Department of Health and Social Services (DHSS) to translate those into similar language for use by the Office of Management and Budget (OMB).

MS. BURKHART pointed out in the fiscal note that \$415,000 goes directly to the Department of Education and Early Development (DEED) each year to support school-based suicide prevention.

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At ease

[1:38:22 PM](#)

CHAIR DUNLEAVY noted that Senator Olson arrived at 1:35. Finding no public testimony, he asked the will of the committee.

SENATOR MICCICHE commented on the heartbreak of suicide and expressed appreciation for the work the council does helping people that previously had few places to turn.

[1:39:03 PM](#)

SENATOR MICCICHE moved to report SB 37 from committee with individual recommendations and attached fiscal note(s).

CHAIR DUNLEAVY announced that without objection SB 37 moved from the Senate Labor and Commerce Committee.

[1:39:34 PM](#)

At ease

SB 23-AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

[1:41:12 PM](#)

CHAIR DUNLEAVY announced the consideration of SB 23.

[1:41:28 PM](#)

TED LEONARD, Executive Director, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community and Economic Development (DCCED), explained that SB 23 would allow AIDEA to provide development project financing to all or portion of a project that it does not intend to own. This will allow AIDEA to serve as a catalyst to leverage more funds from the private sector. The bill also amends the statute to expand

the definitions of "net income" [and "unrestricted net income"] to accommodate changes required by the Government Accounting Standards Board (GASB). AIDEA also requests the ability to calculate dividends on each of its two funds separately to try to maximize the dividend to the state. Finally, SB 23 authorizes AIDEA to participate in the financing and developing of the liquefaction plant and distribution system with the goal of reducing energy costs in Interior Alaska.

MR. LEONARD said Mr. Davis would explain the technical aspects of the bill.

[1:44:50 PM](#)

SENATOR OLSON asked what AIDEA would use as collateral on large projects it doesn't own.

MR. LEONARD explained the three components in project financing: the term loan or first tier, the second or mezzanine tier, and equity. In these projects, he said, AIDEA's best position is in the mezzanine tier, where it can promote a bank's involvement in a project. The asset and cash flows are the collateral, which would be calculated by going through the deal structure. The collateral is the same under a lending structure as it would be if AIDEA owned the project.

For example, on the jack-up rig there is a \$55 million term loan through an overseas Chinese bank, a \$23 million preferred ownership loan with AIDEA, and about \$30 million equity investment by Buccaneer and Ezion Holdings, Ltd. The collateral is the rig itself, valued at about \$127 million. In a worst-case scenario the overseas Chinese bank would have the first lien and take \$66 million, AIDEA would take \$23 million, and Ezion and Buccaneer would get what was left.

He noted that AIDEA was able to move forward with the jack-up rig project due to Senate Bill 300, which allowed AIDEA to be a limited liability corporation (LLC) in order to protect its assets. The \$23.6 million is second to the term loan and before the equity and has none of the risks because AIDEA was just the banker.

Sometimes, he said, it is advantageous to be in an ownership position. The road to the Red Dog Mine is an example. More than one owner is using that road and it's good that AIDEA [through DeLong Mountain Transportation System] is there to control fair access to the asset. However, there are times in project development where it would be better to be a lender and be able

to leverage the investment with money from a banking syndication and require equity by the project sponsors.

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SENATOR OLSON asked if it might affect cash flow if AIDEA doesn't have ownership status. He cited the Red Dog Mine.

MR. LEONARD clarified that this is one more tool to leverage private sector investment for specific projects. It does not remove the ability for AIDEA to have ownership in a project.

[1:50:55 PM](#)

SENATOR STEDMAN referenced page 10, lines 16-18, relating to "a liquefied natural gas production plant, system, and affiliated infrastructure on the North Slope and a natural gas distribution system and affiliated infrastructure within the Fairbanks North Star Borough." He asked why the bill is restricted to just within the North Star Borough.

MR. LEONARD deferred to Mr. Davis.

[1:51:55 PM](#)

MARK DAVIS, Deputy Director, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community and Economic Development (DCCED), said he would review the bill and then address the question. First, the bill amends the statute to allow AIDEA to provide development project financing; language on page 3 adds that goal to the goals of AIDEA.

The substantive change in Section 7 on page 9 proposes an amendment to AS 44.88.172(a), the economic development account of AIDEA. The money in the revolving fund, which has a current balance of approximately \$480 million, is used to own projects or a portion of a project. For example, AIDEA owns just part of the jack-up rig and 100 percent of the Red Dog DeLong Mountain Transportation System port and road.

The proposed change authorizes AIDEA to finance a project at the mezzanine level with security. The reasons for authorizing project financing relate primarily to liability. The jack-up rig, for example, is structured like a loan, but because AIDEA has an ownership interest it is exposed to certain liabilities such as a death during normal operations. By comparison, lenders are traditionally not liable. He cited the explosion in the Gulf of Mexico and pointed out that the owners have been sued, but the banks that financed the project have not. He described this as a tool that AIDEA wouldn't use in every instance.

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MR. DAVIS said the proposed change [in Section 4] on pages 7-8 would allow AIDEA to calculate the dividends separately for the revolving loan fund and the sustainable energy transmission and supply (SETS) development fund that was created last year through passage of Senate Bill 25

The proposed change [in Section 5] on page 8 relates to changes required by the Government Accounting Standards Board (GASB). [It updates the definitional language for "net income" and "unrestricted net income" in compliance with GASB.] This change was at the request of the chief financial officer of AIDEA.

Section 10 amends the uncodified law of the state by adding a new section. It waives the one-third lending cap in the SETS fund for the proposed development of an LNG plant on the North Slope that would truck gas to Fairbanks. It would also allow AIDEA to issue a loan for this project at 3 percent. AIDEA selected 3 percent to lower the cost of the debt service on the project to achieve the target rate of \$10.33 per [mcf] on gas delivered to Fairbanks. That interest rate should approximately track inflation over the 10-year period. This section also gives AIDEA up to \$150 million in bonding authority, whereas current statute requires legislative approval to issue bonds in excess of \$10 million. The bonds in this particular scenario would probably be used for the distribution system in the Fairbanks area.

MR. DAVIS explained, in response to Senator Stedman's question, that the Fairbanks North Star Borough is mentioned specifically because the bill is designed to provide distribution to the core and "medium" areas within that borough. The project may be expanded once it is in operation, but the core project will cover only those two areas. The project design is to do the distribution of the gas at the same time as the build out of the plant. The reason is that it is difficult to finance a distribution system without a gas source, and similarly difficult to build a gas delivery project without a distribution system.

He summarized that the bill asks for legislative permission to make a 3 percent SETS loan to the project of up to \$125 million and gives AIDEA \$150 million in bonding authority to support the distribution system. There is also a \$50 million general funds request to AIDEA for the LNG plant itself. It is designed to

lower the cost of gas delivered to consumers, which now is handled by the Alaska Energy Authority (AEA).

2:00:35 PM

SENATOR STEDMAN questioned the use of such restrictive language when access to the funds could be controlled through the process. He acknowledged that it was reasonable to concentrate distribution initially, but expressed concern with the definitive language on page 10, line 18, that says, "within the Fairbanks North Star Borough." He said he was struggling with the concept that people in the general area, particular going south towards Anchorage, would not have access to gas.

MR. DAVIS clarified that the language on page 10, lines 17-18, refers to the distribution system and does not say that AIDEA could not deliver LNG gas anywhere else. The LNG plant is designed to be moveable so in the future LNG could potentially be supplied to other areas by truck. The gas could be sold but the distribution system would be within the borough. The Regulatory Commission of Alaska would probably issue the certificates of need within the borough, which would account for the language in the bill.

MR. DAVIS said the propane that would be stripped off at the LNG plant would supply about 2,200 homes, and one of AIDEA's goals in working with AEA is to sell that propane at a reasonable rate to the homes outside the gas distribution system.

SENATOR STEDMAN asked if a community that was outside the borough boundaries could get the same financing from AIDEA to develop a distribution system.

MR. DAVIS answered no.

2:03:51 PM

SENATOR STEDMAN warned the committee to consider carefully the restrictive nature of the bill, because all Alaskans have equal access to the wealth of the state.

SENATOR OLSON asked for confirmation that these AIDEA funds would not be available to someone living in Clear, Anderson, or Nenana.

MR. DAVIS responded that, under the terms of the bill, gas could be trucked to all those communities.

SENATOR OLSON said he was talking about a distribution system.

MR. DAVIS responded that the distribution system would probably be limited to inside the borough boundaries given the density issues and financing the distribution system. With help from the Alaska Energy Authority, AIDEA is exploring a way to deliver LNG and propane to other communities. However, there isn't that capability with the first build out of the plant.

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CHAIR DUNLEAVY agreed with the thrust of members' questions; the capital focus is within the borough.

MR. DAVIS confirmed that the capital focus is in the borough for distribution.

SENATOR MICCICHE highlighted that it is a small capacity plant and that Fairbanks would most likely use all of the estimated 24 mcf/day capacity.

MR. DAVIS confirmed that the micro plant could be expanded in the future depending on demand. The current goal is to get it up and running in 30 months.

[2:07:39 PM](#)

SENATOR OLSON asked if he would agree that lending at 3 percent is tantamount to giving free money to the project.

MR. DAVIS disagreed that it would be free, because the loan has to be paid back.

SENATOR OLSON asked what commercial lending institutions think about this sort of project financing.

MR. DAVIS said AIDEA has a letter of interest from a consortium of banks, some of which are local, that would lend on the project.

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MR. LEONARD added that the \$150 million bonding authority is based on market rate plus 25 basis points for AIDEA to run the bonds and work with the project. There is a \$125 million SETS loan at 3 percent and in actuality the market for long-term rates on bonds is projected to be in the 2.88 percent to 3 percent range as well. That was part of the discussion in selecting 3 percent. This isn't unique; in the past AIDEA has kick-started projects with a lower fixed interest rate.

[2:11:35 PM](#)

SENATOR MICCICHE asked if he would agree that AIDEA and SETS exists philosophically to reduce residual lending risk for projects that are of value to Alaskans and may not be commercially competitive.

MR. DAVIS said yes.

[2:13:02 PM](#)

CHAIR DUNLEAVY asked if the language would have to be modified if the model were to be used in the future.

MR. DAVIS agreed it would.

SENATOR MICCICHE clarified that distribution under the bill would be the smaller diameter pipelines that run from the transmission line to the home.

MR. DAVIS agreed.

[2:14:07 PM](#)

GENE THERRIAULT, Deputy Director, Alaska Energy Authority, Department of Commerce, Community and Economic Development (DCCED), explained that the language specific to the Fairbanks North Star Borough recognizes that to get the product flowing in the state it is necessary to ensure sufficient aggregated demand to justify building the plant. The governor has stated that he envisions the plant ultimately being an asset for a much larger geographic area of the state.

Regarding the questions about distribution outside the borough, he said the SETS fund has an additional \$125,000 million that any entity could make application to for the build out of the energy infrastructure. The language of the bill would not have to be modified.

[2:16:57 PM](#)

SENATOR OLSON asked what he envisions in 5-10 years for distribution of energy to small communities like Tanana, Galena, Ruby, and Nulato.

MR. THERRIAULT replied there have been expressions of interest, but it's the volume operation that will potentially reduce the price enough that it would be affordable to those rural settings.

He added that the plant does not produce propane; it separates the propane. He explained that roughly 2 percent of the raw gas that comes to the plant for processing is propane and that volume rises and falls relative to the volumes of LNG.

[2:20:28 PM](#)

SENATOR OLSON asked if there were any provisions to provide energy relief to small communities like Wiseman when gas is trucked from the North Slope, realizing there is no distribution system.

MR. THERRIAULT discussed the mechanics of distributing bottled propane and a small-scale piped distribution system for LNG to serve residential needs. He said it would be important to look at the economics of the system compared to the volume served, and AIDEA could help the community with those calculations.

SENATOR OLSON asked if the propane would be separated from the gas on the North Slope and trucked separately from the LNG trucks.

MR. THERRIAULT confirmed that the propane would be shipped separately from the LNG. He noted that propane had been shipped in volume for decades.

SENATOR OLSON asked when he could tell the mayor of Wiseman that he could take delivery of the first shipment of propane.

MR. THERRIAULT said he would encourage the mayor to be in touch with himself or Mr. Strandberg.

[2:24:34 PM](#)

SENATOR MICCICHE asked if he would be correct in assuming that communities up and down the river but not on the river system would be limited to propane.

MR. THERRIAULT agreed that was basically correct but that the technology was developing rapidly.

[2:25:41 PM](#)

CHAIR DUNLEAVY announced that he would hold SB 23 in committee.

[2:25:56 PM](#)

There being no further business to come before the committee, Chair Dunleavy adjourned the Senate Labor and Commerce Standing Committee meeting at 2:25.