

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

March 29, 2013

3:32 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Fred Dyson, Vice Chair
Senator Peter Micciche
Senator Anna Fairclough

MEMBERS ABSENT

Senator Click Bishop
Senator Lesil McGuire
Senator Hollis French

COMMITTEE CALENDAR

PRESENTATION: AGDC FINANCING AND OWNERSHIP MODELS ASSOCIATED WITH GAS MEGAPROJECTS

- HEARD

SENATE BILL NO. 71

"An Act relating to the filing date for the final quarterly payment of, and to the assessment of penalties under, the fishery resource landing tax."

- MOVED SB 71 OUT OF COMMITTEE

SENATE RESOLUTION NO. 5

Requesting that the North Pacific Fishery Management Council take action to reduce the quantity of Chinook salmon by-catch in the Gulf of Alaska and Bering Sea trawl fisheries by setting new limits in the Gulf of Alaska trawl fisheries and lowering the existing limits in the Gulf of Alaska and Bering Sea pollock fisheries to at least half of the current limits.

- MOVED CSSR 5(RES) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 71

SHORT TITLE: PAYMENT OF FISHERY RESOURCE LANDING TAX

SPONSOR(s): SENATOR(s) MICCICHE
03/11/13 (S) READ THE FIRST TIME - REFERRALS
03/11/13 (S) RES, FIN
03/27/13 (S) RES AT 3:30 PM BUTROVICH 205
03/27/13 (S) Heard & Held
03/27/13 (S) MINUTE(RES)
03/29/13 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SR 5

SHORT TITLE: CHINOOK BY-CATCH LIMITS

SPONSOR(s): SENATOR(s) MICCICHE

03/18/13 (S) READ THE FIRST TIME - REFERRALS
03/18/13 (S) RES
03/29/13 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

ANGIE WHITMAN, representing herself
Bethel, Alaska

POSITION STATEMENT: Supported SR 5.

PETE WEDIN, Advocate
Alaska Marine Conservation Council
Homer, Alaska

POSITION STATEMENT: Supported SR 5.

JULIE BONNEY, Executive Director
Alaska Groundfish Data Bank
Kodiak, Alaska

POSITION STATEMENT: Did not voice a position statement on SR 5.
She suggested that changes be made to SR 5.

STEVEN BRANSON, Advocate
Crewmembers Association
Kodiak, Alaska

POSITION STATEMENT: Supported SR 5.

TERRY HAINES, representing himself
Kodiak, Alaska

POSITION STATEMENT: Supported SR 5.

BECCA ROBBINS GISCLAIR, Senior Fisheries Advisor
Yukon River Drainage Fisheries Association
Anchorage, Alaska

POSITION STATEMENT: Supported SR 5.

DAVE BEEBE, representing himself
Kupreanof, Alaska
POSITION STATEMENT: Supported SR 5.

TIM SMITH, President
Nome Fisherman's Association
Nome, Alaska
POSITION STATEMENT: Supported SR 5.

STEPHANIE MADSEN, Executive Director
At-sea Processors Association
Juneau, Alaska
POSITION STATEMENT: Did not provide a position on SR 5.

RICKY GEASE, Executive Director
Kenai River Sportfishing Association
Soldotna, Alaska
POSITION STATEMENT: Supported SR 5.

JOE DUBLER, Vice President and CFO
Alaska Gasline Development Corporation
Anchorage, Alaska
POSITION STATEMENT: Presented an overview on the financing and ownership models associated with megaprojects.

ANGELA RODELL, Deputy Commissioner
Alaska Department of Revenue
Juneau, Alaska
POSITION STATEMENT: Presented an overview on the financing and ownership models associated with megaprojects.

ACTION NARRATIVE

[3:32:12 PM](#)

CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:32 p.m. Present at the call to order were Senators Dyson, Micciche, Fairclough, and Chair Giessel.

SB 71-PAYMENT OF FISHERY RESOURCE LANDING TAX

[3:32:36 PM](#)

CHAIR GIESSEL announced SB 71 to be up for consideration. She stated that public testimony had been completed and asked for concluding comments from members or the bill's sponsor.

SENATOR DYSON moved to report SB 71, [labeled 28-LS0594\A], from committee with attached fiscal note(s) and individual recommendations.

CHAIR GIESSEL announced that without objection, SB 71 moved from the Senate Resources Standing Committee.

[3:33:17 PM](#)

CHAIR GIESSEL announced that the committee would stand at ease.

SR 5-CHINOOK BY-CATCH LIMITS

[3:33:27 PM](#)

CHAIR GIESSEL announced that SR 5 was up for consideration.

SENATOR MICCICHE moved to adopt Committee Substitute (CS), [labeled 28-LS0568\C], as the working document. He asked prior to adoption that one change be made on page 3, line 21, to delete the word "require" and insert the word "encourage."

CHAIR GIESSEL, hearing no objection, stated that the CS was adopted. She asked if Senator Micciche would like to present the resolution.

SENATOR MICCICHE, speaking as prime sponsor, introduced the resolution with the following statement:

Our recreational, subsistence, and commercial fisheries had faced dramatic short falls of Chinook salmon in recent years, it has caused a lot of hardships for Alaska residents. The economic loss is due to a low abundance of Chinook salmon, in 2012 alone in sport and commercial fisheries in Alaska were over \$34 million, not including the significant effects on subsistence and personal-use resource users.

An example, in your district and mine, and last summer I was the mayor of a sport fishing town of Soldotna, I'm also a commercial fisherman in Cook Inlet, but it began as a very promising year throughout the state, and ended in an economic disaster, many not knowing how they would get through the winter. They pulled a symposium together last year and they are working on a lot of the gaps on understanding how to maintain sustainable stocks of Chinook salmon throughout the state. But, one of the problems facing us is salmon

by-catch in the Bering Sea and Gulf of Alaska trawl-fisheries. According to a 2013 report by the North Pacific Fisheries Management Council, the five year average total for Chinook salmon by-catch in these fisheries was 40,621 fish. I am not blaming the failure of our Chinook salmon fisheries on the trawlers, I want that perfectly clear. But those fish if they had not intercepted would have returned to Alaska waters and provided harvest opportunities as well as the escapement we need.

This resolution simply asks the North Pacific Fisheries Management Council to take action to reduce the level of Chinook by-catch in the Bering Sea and the Gulf of Alaska trawl fisheries to at least half of the current limits. In this time of low king salmon abundance, it is critical that unintended mortality be reduced and this resolution is an attempt to address a known cause of substantial mortality and help restore strong king salmon runs in our rivers. In a state where folks seem to really enjoy fighting over fish, support of this resolution represents one of the rare incidences of an issue where all fishing Alaskans are united. In your packets you will see support from commercial support and subsistent users form around the state including the Association of Village Council Presidents, the Tanana Chiefs Conference, the Yukon River Drainage Fisheries Association, Kenai Peninsula Borough Assembly, Cooper Landing Advisory Committee, Alaska Marine Conservation Council, the Kenaitze Indian Tribe, and I have a list of individuals that have also commented favorably.

Madam Chair, this resolution is not about blame, since I do not believe any type of gear-type of commercial fishing, sport fishing, or subsistence fishing is responsible for the low abundance of Chinook fisheries. I honestly believe that trawl fisheries have worked very hard to reduce Chinook by-catch. This resolution is simply about returning as many Chinook to our river systems to spawn as possible to hopefully allow our natural cycles to return to our river systems and return them to systems of abundance, every fish matters. While our constituents suffer from sport, commercial, and subsistence closures, and our lodges suffer from cancelations or simply asking for the trawl fisheries and individual trawl fishing boats

to do better, the best they can. For example, the highest boat so far this year has reported catching 980 Chinook salmon, which is eight times more King salmon than all of the fish catch by sport fisherman on the Kenai River system last summer, and there are three quarters left to go in the year. This resolution is about spreading the effort.

Madam Chair, you and I faced 450 of the commercial fishing families in our two districts on the Kenai that were out of work last summer. While sport fishing, subsistence, and commercial fisherman were severely restricted throughout the state, the trawl fisheries were fishing as usual without absorbing much of the economic challenge of the other fisheries and fishermen. This resolution simply asks more fisheries to share the burden of the road to recovery for Alaska's coastal runs of Chinook salmon.

CHAIR GIESSEL opened public testimony.

3:39:08 PM

ANGIE WHITMAN, representing herself, Bethel, Alaska, said the issue was one of injustice with one group allowed to legally waste Alaska's salmon resource while the Kuskokwim region's residents were severely restricted, issued citations, made to appear in court, and paid fines. She continued that it was great to have the resolution and thanked Senator Micciche, because the Bethel region needed the reduction in salmon by-catch. She stated that it was too bad that other areas of the state were affected by the incredible by-catch numbers. She said the Bethel region had to fight for reduction of interception of their salmon resources back in 2004 regarding Area-M, and a few years later for the high seas trawl fisheries waste termed "by-catch." She stated that it was too bad that so much attention had to be placed on the by-catch problem when so many other problems require attention; such as the high cost of living expenses, drug abuse, and school educational. She stressed that she was trying to word her statement in such a way that it would resonate with the legislators until the injustice was corrected. She said she was trying to assure that the Bethel region had their dried fish and other subsistence which Chinook salmon provided. She emphasized that a dollar value could not be placed on the Chinook salmon and noted that regional grocery stores did not sell the bounty that Chinook salmon provided the Bethel region. She explained that fisheries disaster declarations only replaced business associated losses, but not the losses incurred

by hundreds of individuals who went without Chinook salmon last summer. She said while her region's salmon resources were wasted on the high seas, the Bethel area was told to conserve and not to fish. She noted that there were low numbers of returning Chinook salmon and asked that the Bethel region's resources be returned to them. She stated that SR 5 was a worthy resolution and asked the legislature to put an end to the waste of the region's precious salmon resource.

[3:43:19 PM](#)

PETE WEDIN, Advocate, Alaska Marine Conservation Council (AMCC), Homer, Alaska, said AMCC was a family of seafood harvesters from all over Alaska, including: fishermen, subsistence harvesters, marine scientists, small business owners, and families. He said our ways of life, livelihoods, and local economies depend on productive ocean. He said AMCC believed that the coastal residents have a valuable and unique perspective on marine ecosystem with a right to meaningful and influential participation in fishery management decisions. He stated that AMCC thanked Senator Micciche for introducing SR 5.

He said the Gulf of Alaska non-pollock trawl fishery operated without a Chinook salmon by-catch-cap. He noted that the North Pacific Fisheries Management Council (NPFMC) set a 2012 by-catch-cap on the Pollock fishery that was higher than the ten year average. He explained that a 25,000 Chinook salmon cap would prevent the high by-catch of 54,000 in 2010, but the cap still would not represent a meaningful reduction. He indicated that a 5,000 fish-cap on the non-pollock fleet would be the best choice to reduce the waste of the Chinook salmon. He said SR 5 addressed what AMCC believed to be the best alternative, given the motion before NPFMC, by placing a cap on the non-pollock trawl fishery in the Gulf of Alaska. He noted that SR 5 further advocates for NPFMC to explore ways to reduce all by-catch in the other trawl fisheries in the Bering Sea and the Gulf of Alaska. He summarized that the Chinook salmon were important to his region and asked the committee to pass SR 5.

[3:46:30 PM](#)

JULIE BONNEY, Executive Director, Alaska Groundfish Data Bank (AGDB), Kodiak, Alaska, explained that AGDB members were both shore-side processors and trawl catcher vessels that supported fishery economies in Alaska coastal communities. She stated that AGDB was sympathetic to the Chinook salmon directed users due to the recent poor Chinook salmon runs. She asserted that the entire topic of salmon by-catch was extremely complicated, an

issue that stakeholders in the federal fisheries and NPFMC had spent time to reduce and mitigate by-catch impact.

MS. BONNEY said it was important for the committee to understand that the Gulf of Alaska and Bering Sea trawl industries were completely different, both in terms of the Chinook salmon that were caught and the fishery management pools available for the fleet to reduce Chinook salmon by-catch.

She explained that Chinook salmon by-catch taken in the Gulf of Alaska trawl fisheries were not coastal Western Alaska stock, 99 percent of the 2011 genetic samples were from the Gulf of Alaska and Pacific coast region. She specified that the Chinook salmon by-catch in the Gulf of Alaska was as follows:

- 40 percent from British Columbia,
- 26 percent from the Pacific Northwest,
- 14 percent from Southeast Alaska.

She indicated that the three regions previously noted had a huge amount of hatchery production with 200 to 250 million fry a year. She explained that AGDB's environmental findings indicated that Chinook salmon survival was high in the Pacific Northwest and Canada. She said fishermen represented by AGDB were seeing greater numbers of Chinook salmon on the fishing grounds from British Columbia, Pacific Northwest, and Southeast Alaska stocks.

She stated that the other part that was important to understand was that fishermen in the Gulf of Alaska operated under a race for fish, which is a perverse environment for by-catch reductions. She explained that the guy that catches the most by-catch potentially catches the most target fish and makes the most money.

She summarized that by-catch was a very complicated issue and the Gulf of Alaska and the Bering Sea were not the same.

CHAIR GIESSEL asked if Ms. Bonney opposed SR 5.

MS. BONNEY responded that there was a lot of information in SR 5 that was not correct and offered to go line-by-line to make corrections. She stated that she preferred [HR 6] where the trawl industry and NPFMC were complemented for all of the efforts they made. She said AGDB would continue to make efforts.

SENATOR MICCICHE commented that he was aware of the facts that Ms. Bonney had brought up. He noted that the CS was identical to the House version and stated that the changes made might make AGDB more comfortable.

[3:50:06 PM](#)

STEVEN BRANSON, Advocate, Crewman's Association, Kodiak, Alaska, said the Crewman's Association, Kodiak, Alaska, represented 1200 intermittent members and the largest faction of the fishing force and the largest labor force in the state. He said he supported SR 5 and addressed the incorrect information NPFMC was receiving.

He noted being in contact with trawl crewman who mentioned deck loads of by-catch King Salmon. He asserted that one does not report by-catch all the way and compared the practice to drivers of cars having to ticket themselves for speeding. He asserted that there would be a lot fewer speeding tickets if drivers had to self-ticket.

He noted the new observer program they have seen through random choosing of boats to observe a reduction in the amount of trawl observation and an increase in the amount of small boat pot-fishing that are less damaging fisheries. He said with a large net you could make large mistakes in a short amount of time. He pointed out that laws made regarding fisheries should be accompanied by increased observer coverage. He said his colleges recommended 100 percent observer coverage on the low-dollar, high by-catch fisheries that would give the scientific and statistical committee better ammunition to inform NPFMC. He summarized that laws and limits mean nothing without observer coverage.

[3:52:37 PM](#)

TERRY HAINES, representing himself, Kodiak, Alaska, said he was a local commercial fisherman and served on the Kodiak City Council. He asserted that one resource should never be traded for another. He noted concern for high levels of by-catch in species that were experiencing decreasing abundance. He said it was important to increase the observer coverage in fisheries where high levels of by-catch were already being observed for decreased-abundance species. He stated that 100 percent observer coverage would provide a much better baseline to increase the understanding of what was going on. He advised that genetic sampling would provide a better look at where the salmon were coming from and going. He said he supported SR 5.

[3:54:20 PM](#)

BECCA ROBBINS GISCLAIR, Senior Fisheries Advisor, Yukon River Drainage Fisheries Association (YRDFA), Anchorage, Alaska, said YRDFA was a group of subsistence and commercial fishermen that encompassed the length of the Yukon River in Alaska. She said YRDFA supported SR 5. She explained the Bering Sea Chinook salmon by-catch as follows:

- Severe declines on the Yukon River over the past five years;
- Federal fishery disasters have been declared for every year since 2008;
- No commercially directed Chinook salmon fishery for the past five years;
- Unable to provide the annual amounts necessary for subsistence which is designated by the Alaska Board of Fisheries;
- The 2012 subsistence harvest was roughly half of the historic average.

She stressed that the information was more than numbers, but the impact extended to people's culture and food on their tables. She said the cause for the decline was not known, but YRDFA was faced with controlling what they were able to react to. She pointed out that there were reductions in river-run fisheries in order to enable fish to reach spawning grounds. She stressed that it was important to reduce the [salmon] mortality from by-catch as well. She commented that the most recent genetic studies indicated that over 70 percent of the Chinook salmon taken as by-catch was from Western Alaska's stocks, virtually all of which were declining and struggling. She stressed that maintaining the by-catch limit at 60,000 fish as an upper limit would be absolutely devastating. She summarized that YRDFA supported SR 5 and asked for by-catch reduction.

[3:56:39 PM](#)

DAVE BEEBE, representing himself, Kupreanof, Alaska, said he was a commercial fisherman for Individual Fishing Quota (IFQ) halibut, Dungeness crab, and sea cucumbers. He noted that he was a member of the advisory committee to the North Pacific Anadromous Fish Commission (NPAFC). He stated that his position with NPAFC had provided him with an opportunity to receive information directly from individuals such as Eric Volk and others who were following [by-catch in Alaska]. He pointed out that Mr. Volk and others were profoundly struck by the decline in Alaska's Chinook salmon populations. He stated that he

strongly supported the reductions of Bering Sea and Gulf of Alaska trawl fisheries. He said he supported SR 5 and HR 6 in regards to by-catch reduction. He said that one of the state's primary obligations was to subsistence cultures and their extreme resource dependence upon Chinook salmon. He explained that due to profound population decline, it was incumbent upon everyone to look particularly closely at by-catch and waste that was well documented in the trawl fisheries.

SENATOR FAIRCLOUGH asked for Mr. Beebe to restate his affiliation.

MR. BEEBE answered that he was speaking for himself.

SENATOR FAIRCLOUGH replied that she thought he mentioned NPFMC and asked if he served on the council.

MR. BEEBE answered that he was on the advisory committee to NPAFC.

[3:59:21 PM](#)

TIM SMITH, President, Nome Fisherman's Association (NFA), Nome, Alaska, said NFA was a group of sport, commercial and subsistence fishermen in the Norton Sound Region. He said he fully supported SR 5.

He indicated that SR 5 was something Alaska needed to do and commended the legislature for putting it forward. He said he attended the meetings where NPFMC set the King salmon by-catch-caps for both the Bering Sea and the Gulf of Alaska. He stated that he was really discouraged and disappointed with the Alaska delegates to NPFMC for not being more active in getting a reasonable cap set. He noted that the resolution's calling for a [by-catch] reduction from 60,000 to 30,000 was fully biologically supportable.

He asserted that Norton Sound had been forgotten until the important fisheries started to experience the same problems that Norton Sound had been experiencing for 30 years. He stated that the northern Norton Sound region had three King salmon population. He said in 2012, the three salmon runs were below 100 individuals and noted as follows:

- Pilgrim River had 64 King salmon;
- Boston Creek had not been counted since 2005, the last count was 29 King salmon;
- Kwiniuk River had 36 King salmon.

MR. SMITH explained that the Alaska Department of Fish and Game (ADFG) said it takes 200 pairs of King salmon to be a viable stock. He noted that the three runs he had mentioned were biologically extinct and were as endangered as any King salmon or salmon population in the U.S. He said for some reason Norton Sound's low salmon runs was being missed. He said the situation with salmon management was a real constitutional issue and what was happening in Norton Sound with King salmon could not be called sustained yield. He asserted that the Alaska Constitution required management for sustained yield. He stated that Norton Sound was at a point where the King salmon populations were not even going to survive, let alone produce any kind of yield.

He said he did not think it was possible to currently harvest pollock without destroying King salmon runs and stressed that another way be found. He asserted that he would be fine with not taking the entire population tact every year. He noted that pollock were long-lived fish and would be available for harvesting a year later. He summarized that the Alaska Constitution required that King salmon stocks had to be preserved.

[4:02:52 PM](#)

STEPHANIE MADSEN, Executive Director, At-sea Processors Association (APA), Juneau, Alaska, said APA was one of four sectors in the Bering Sea pollock fishery. She explained that APA was the offshore component for a fleet that was only allowed to fish in the Bering Sea.

She informed the committee that the Bering Sea's four sectors included the Community Development Quota (CDQ) Program which received 10 percent "off the top," and the remaining sectors split between the catcher-processor fleet that APA represented. She explained that the catcher-vessels that delivered to mother-ships received 10 percent and catcher-shoreside vessels that encompassed the inshore-sector received 50 percent of the quota.

She concurred that NPFMC established a high cap of 60,000 [King salmon]. She detailed that if APA violated the level of 47,000 [by-catch] in any seven years, APA would have to abide with a 47,000 [by-catch-cap] for the remaining life of that action. She explained that a cap was a way to shut down a fishery. She asserted that the unique by-catch-cap proposal did not provide incentive for the fleet and individual vessels to do their best in every instance, every day.

MS. MADSEN explained the NPFMC by-catch-cap would allow APA access to 60,000 in very unusual years with expectations that APA could live with a much lower cap by reducing by-catch in every level of pollock and salmon abundance. She said APA had to annually meet with NPFMC and demonstrate how its incentives were working. She stated that APA's incentives were approved by the National Marine Fisheries. She said APA was meeting with NPFMC the following week to address how their incentives were working and noted that APA's second annual report to NPFMC was due April 1.

She explained that APA's Bering Sea program for catcher-process was a by-catch avoidance area. She detailed that APA monitored pollock and Chinook catches and identified by-catch avoidance areas. She said APA shared information with its fleet. She noted that vessels that performed below a certain level were excluded from the avoidance area. She reported that vessels that failed a test were out of the designated area for one week, a second failed test meant a two week exclusion. She said excluding vessels would have a huge impact on catch-and-process platforms that required a constant flow. She reiterated that [Bering Sea by-catch] was complex and she dealt with its challenges on a daily basis.

[4:05:58 PM](#)

SENATOR DYSON asked beyond avoiding areas with high King salmon activities, what practical practices were used to avoid King salmon by-catch.

MS. MADSEN explained that APA used salmon-excluders that separated salmon from pollock.

SENATOR DYSON asked if there were any other methods used.

MS. MADSEN answered increased communication between the fleet. She noted that a vessel could be shut down if it exceeded its limit.

SENATOR DYSON asked if the feedback loop was shared with the managers.

MS. MADSEN answered yes.

SENATOR DYSON asked if King salmon information was shared with ADFG.

MS. MADSEN responded that the information was certainly available, but conceded that she was not sure if ADFG was on a weekly e-mail list.

SENATOR MICCICHE thanked Ms. Madsen for her presentation. He said he was hesitant to add the praises that were put in the resolution, but conceded to being happy to now having them included. He asserted that SR 5 was not a blame game and remarked that APA had done a good job. He emphasized that the situation with King salmon was an emergency with thousands of Alaskans out of work or wondering what was going to fill their freezers. He stated that SR 5 was a strong request for everyone to work together better to further reduce by-catch. He emphasized that SR 5 should not be viewed as an intent to shut down Alaska's trawl fisheries. He noted that the trawlers played an important role in getting Alaska's seafood to global markets, a role that he wanted to see continue. He said he would work with APA to make sure APA continued fishing in addition to getting every possible King salmon back to the rivers and restore normalcy.

MS. MADSEN replied that Senator Micciche could rest assured that her capacity for dealing with the skippers and vessels that salmon would remain on their minds every day.

4:09:01 PM

RICKY GEASE, Executive Director, Kenai River Sportfishing Association (KRSA), Soldotna, Alaska, said KRSA was a 501(c)3 fishery conservation organization representing some of the over 100,000 anglers who liked to fish for King salmon throughout Southcentral Alaska and the rest of Alaska. He said just a decade ago, the Kenai River King salmon fishery was rated as the number one sport fishery in North America, an impressive statement for all of the different sport fisheries all across the country including: Florida, the [Gulf of Mexico], San Diego, and all of the other places. He said Field and Stream stated that the Kenai was the "top dog" for fisheries. He disclosed that the Kenai, Norton Sound, Yukon, Kuskokwim, Cook Inlet, Kodiak, Copper River, had all seen dramatic declines in Chinook salmon.

He divulged that ADFG recently dealt with the Chinook salmon problem in the Cook Inlet by reducing the escapement goal by one third for late run Kenai River King salmon. He stated that KRSA did not agree with ADFG's decision because KRSA believed the problem was further exasperated in the long term. He asserted that management plans were developed in times of high abundance

and reevaluation was required to address low abundance. He stated that NPFMC should take the same approach and reevaluate by-catch limits for the Bering Sea and the Gulf of Alaska.

MR. GEASE said the Bering Sea had many more tools to reduce Chinook salmon by-catch that could be used in the Gulf of Alaska. He suggested that catch-shares could be introduced into the Gulf of Alaska. He conceded that catch-shares would be controversial in the Gulf of Alaska fisheries. He emphasized that the time had come to bite the bullet due to the King salmon's rapid decline in Southcentral Alaska. He explained that King salmon from Southcentral Alaska accounted for 30 percent of the Gulf of Alaska's catch. He stressed that even thousands of fish could make a difference.

He recommended that three points be added to SR 5 as follows:

1. Encourage NPFMC to obtain by-catch research data from the observer program for: age, size, length, fat content, stomach content to identify food source, and how robust the salmon were at the one to three year old stages.
2. Ascertain harvest data from the observer program in the Gulf of Alaska. He conceded that people would have to be placed on vessels and that was not desired. He suggested using time-stamped video data to develop hot-spot capabilities that was used in the Bering Sea.
3. Initiate incentives used in the Bering Sea by trading quotas between vessels to discourage racing to fish and not being rewarded for having high King salmon by-catch.

SENATOR MICCICHE said he would talk to Mr. Gease on some of the specific data possibilities on a limited basis to see what might fit. He pointed out that SR 5 had a zero fiscal note.

CHAIR GIESSEL stated that finding no further comments, public testimony was closed.

[4:13:04 PM](#)

SENATOR DYSON moved that the committee move CS for SR 5, version C, from committee with individual recommendations with attached fiscal note(s).

CHAIR GIESSEL announced that without objection, CSSR 5(RES) moved from the Senate Resources Standing Committee.

[4:13:33 PM](#)

CHAIR GIESSEL announced that the committee would stand at ease.

**Presentation: AGDC Financing and Ownership Models Associated
With Gas Megaprojects**

[4:15:36 PM](#)

CHAIR GIESSEL called the committee back to order and announced the next order of business on the agenda would be a presentation by the Alaska Gasline Development Corporation (AGDC) on the financing and ownership models associated with megaprojects.

[4:15:58 PM](#)

JOE DUBLER, Vice President and Chief Financial Officer, Alaska Gasline Development Corporation (AGDC), Anchorage, Alaska, stated that he would provide a brief overview of tariffs. He said there were three basic factors that affected tariffs: capital expenditures, operating expenditures, and throughput volume. He explained that the tariff calculation itself was quite complicated, but the concept was simple. He emphasized that tariffs were forward-looking projections. He said the intent was to figure out the following:

- How much the line was cost to operate and build;
- How much was going through the line in order to allocate cost to the throughput.

He said the throughput volume was the most self-explanatory and was defined as the amount of gas that was anticipated to be shipped through the line.

He stated that the capital expenditure number was the allowable non-operating cost of construction and included: engineering, permitting, pipe purchase and facilities purchase cost. The capital expenditures were the pre-operational costs incurred in order to get the facilities and the pipeline up and running.

He explained that the operating expenditures included: operations, maintenance, capital expenditures depreciation over the depreciable life, taxes, and interest expenses.

He explained that the robust tariff model used for AGDC's Alaska Stand Alone Pipeline (ASAP) was simply a forward looking pro forma income statement that calculated the project's projected net income. He specified that the net income equaled the equity capital contribution times the return on equity. The process was iterative where the calculation ran multiple iterations to come up with a tariff that covered all costs and return on equity to equity investors in the pipeline. He summarized that the tariff

model was a pretty simple concept derived from a fairly complex spreadsheet.

[4:18:46 PM](#)

MR. DUBLER explained that his presentation, "Financing Megaprojects," would provide the committee with an idea of how large projects were financed. He said the objective of financing any project was to achieve the lowest possible cost. He stated that his strategy was to formulate financing from the investor's standpoint since investors were the people that would buy the bonds. He explained that a better price was achieved when selling something that a buyer wanted rather than selling something you wanted to sell. He said AGDC tried to structure a financing package to make it as attractive to investors as possible by meeting with investors and bankers to find out who was out there and what they were looking for.

He said there were typically two sources of funding for a project, equity and debt. Equity was normally the first dollars into a project, followed up by debt on the backside. He explained that both equity and debt had advantages and disadvantages. Rates of return for both equity and debt were determined based upon several factors that essentially rewarded investors for taking risk. The old classic financial model for risk-reward: you increase your risk, you increase your reward. He said the formula he used was the investment yield equaled the inflation rate, which was a baseline that compensated people for the time-value of money, plus a risk factor, plus a liquidity factor, and that provided what an investor was looking for in a yield on a security. He said the estimated inflation rate was a benchmark based upon Treasury bills (T-bill); considered a risk free and highly liquid security. The interest rate on a T-Bill was considered roughly equivalent to the inflation rate that the market was estimating.

[4:21:26 PM](#)

He said the inflation-component of an interest rate represented the time-value of money; a dollar today was worth more than a dollar tomorrow. The second factor was risk and the component represented the risk that a borrower would default or not repay the debt as agreed with the issuer. He said a good example was an individual's personal credit score, the higher the score the lower their mortgage rate.

He said the liquidity factor was a component representing the risk that an investor would not be able to readily exchange their investment for cash if needed. Investments traded on

normal exchanges and investment-grade bonds were usually fairly liquid. Some stocks could be liquid, junk bonds and equity shares in projects such as ASAP were not very liquid. He referred to the recent meltdown in the auction rate securities market and the effect on liquidity. He explained that auction rate securities did not have any definite liquidity and relied upon frequent auctions for investors to bid on bonds. He said liquidity issues occurred when people quit bidding on bonds and the market crashed.

MR. DUBLER said equity financing was riskier and costlier than debt financing because equity investors typically are the first ones to put dollars into a project. Long term bond holders do not want to take a lot of completion risk. For example, he noted the "Whoops Bonds" in Washington where a project was completed but the facility was never actually operated. Investors in the project lost everything and there may have been bondholders that never got anything out of their investment, either. Equity shares unfortunately are not very liquid and are much more difficult to sell than a bond issued for the same project. He explained that bonds could be traded on most markets.

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It is advantageous to keep the equity portion of the financing as small as possible and the debt portion as large possible, within reason; it's more of a balancing act than a science, depending on the project. Equity financing options (not 100 percent of the whole project) could go anywhere from 100 percent state-ownership to 100 percent private-ownership (a 75/25 split would equate to 75 percent state-ownership and 25 percent private ownership).

MR. DUBLER said one of the advantages to a state-owned pipeline was that the state would have more control over its components and would be able to dictate the structure, type of gas, and everything to do with the pipeline. But some might say that a totally state-owned AGDC project would be a disadvantage due to incidences in the past where state-run projects did not turn out so well.

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MR. DUBLER noted that from the beginning, the customers would determine what goes through the pipeline and that the private sector was a little better at judging customers, because that was the business they were in. He said the private sector would

determine how big the pipe was, the throughput required for customers, and off-take placements.

SENATOR DYSON asked if control over components also meant how the construction was done and project management.

MR. DUBLER answered yes. He said the private sector would control all aspects of a project.

SENATOR DYSON stated that the final important component was whether or not the gasline would be a common carrier pipeline and asked who controls who can get on the on-ramp and off-ramp for the project.

MR. DUBLER replied that if the state owned the pipeline, subject to the state laws that were in place at the time, they would be able to control the inputs or outputs.

SENATOR DYSON replied that he understood common versus contract carriage, but he was worried about a de facto monopoly for the pipeline.

MR. DUBLER answered that any type of utility or transportation of gas or electricity would typically have a monopoly. He explained that two electric lines would not run to the same house and that was why some type of regulation was fairly common. He continued that interstate pipelines are regulated by the Federal Energy Regulatory Commission (FERC) and intrastate pipelines were typically regulated by the Regulatory Commission of Alaska (RCA).

SENATOR DYSON noted that the RCA did not control the Trans-Alaska Pipeline System (TAPS) and asked if the pipeline was considered a utility. He suggested that Mr. Dubler was thinking that the pipeline would be in the category of supplying energy to Alaskans and not exporting gas.

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MR. DUBLER answered that the ASAP would just be a transmission line transporting gas from the North Slope to Fairbanks and Southcentral, but that he was instructed to not comment on regulatory issues.

SENATOR DYSON said he talked about the advantages of state and private owned, but he didn't see the bullet that says whether it is open or restricted access.

MR. DUBLER said the main advantage to a privately owned pipeline is that the private sector is probably best equipped to own and operate them, because they do it for a living. That is why there is some hesitation to get the state involved, but then the disadvantage to that would be that the state loses control over most aspects of the operation and construction of the line that aren't regulated by current laws.

SENATOR MICCICHE clarified that there would be a federal jurisdictional component to any "192 Line," as well, even if FERC is not involved in the regulation.

MR. DUBLER agreed that there are a lot of regulations and permits on this pipeline; it's actually mind-numbing. He then turned the debt financing portion of the presentation over to Ms. Rodell.

ANGELA RODELL, Deputy Commissioner, Alaska Department of Revenue (DOR), Juneau, Alaska, said that a number of different vehicles are available for the debt portion of a project and she would focus on three of the most common: general obligation bonds (GO), project finance or revenue bonds, and the state's moral obligation.

She said the general obligation bonds would obviously benefit from the state's rating, which is AAA from all three rating agencies. Under this scenario the state would enjoy an extremely low cost of funds with a very straight forward credit analysis, because the rating agencies would be looking straight to the state coffers for debt repayment. The downside to GO bonds is the requirement for voter approval and that makes them more challenging to get in the first place. If they are approved, theoretically, any appropriations for debt could potentially be offset by creating an entity with the agreement to return revenues back to the state general fund to cover the debt service.

She explained that project financing with revenue bonds typically has no direct impact on the state and was looked at for a standalone project. Revenues would be estimated using the shipper contracts and a rating would be assessed. The bonds would be issued up to the amount of risk, leverage, and coverage that investors would be willing to take. The revenues received would be used to directly repay to the bond investors.

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MS. RODELL said that state moral obligation bonding is actually credit enhancement to the revenue bond project finance construct and that the term "moral obligation" does not exist in legislation or state statutes. "Moral obligation" is a legal construct that the state used to create a capital reserve fund, to be maintained above a certain dollar amount, so that it could be made available to an entity. Should the fund fall below the required amount, the issuer (the state) would be obligated to go back to the legislature and request replenishment. The obligation to request replenishment is, in fact, the "moral obligation."

There is no legal or binding requirement on the legislature to fund the replenishment request, Ms. Rodell explained, but there would be an expectation by the investors for the state to step up and honor its request and show evidence of support for the project. The result would be for investors to pay more or take lower interest rates in return for the credit enhancement. It is a definite financial benefit to the issuers, but it does affect the state's credit rating, because it was viewed as a real obligation.

SENATOR FAIRCLOUGH stated that the committee did not have a bill in front of it and noted that the Knik Arm Bridge and Toll Authority (KABATA) was going to be before the Senate Finance Committee with "state moral obligation" listed in its financing package. She asked if the KABATA financing package could affect the state's bond rating.

MS. RODELL answered that KABATA's financing package would not affect the state's ratings at present, but "moral obligation" would come into play as state debt when an appropriation was made to honor an obligation. She said the Department of Revenue (DOR) kept track of exactly how much outstanding moral obligation debt the state had and its potential impact on overall finances in order to explain to rating agencies that they know exactly what was going on with state assets and debt capacity.

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SENATOR MICCICHE clarified that the project financing would technically not have an impact on the state and asked if she meant it would use the state's credit rating to obtain GO bond financing like a toll bridge with cars paying the toll. It would be standalone credit that doesn't hit the general fund?

MS. RODELL answered that was correct and that investors would only allow a project to issue no more debt that they think the revenues will support. You may have authorization to issue \$1 billion for a pipeline, but if all the revenue assessments point to raising enough to support only \$200 million in debt, the market would only allow \$200 million worth to be sold.

The presentation came back to Mr. Dubler who said project finance optimization as about coming up with the lowest overall cost of funds to finance a project and the goal is to strike an appropriate balance between debt and equity. The quandary with these projects is that investors wanted more debt and debt people want more equity; and having either of those situations makes the other feel more secure. The balance is needed, because of the different yields. A typical yield on a pipeline project similar to ASAP is in the 10 to 13 percent range and debt is in the 4.5 to 7 percent range, so there is a very large difference in the costs. And because of that difference, one wants to minimize the 10 to 13 percent range and maximize to 4.5 to 7 percent range.

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MR. DUBLER said they had debated ownership models and concluded that it will probably end up with each of the entities having a pro-rata share of ownership commensurate with the amount of gas they are shipping. For example, if the state has an eighth percent (its royalty percentage of the gas) contribution, then it would be contributing an eighth to the equity of the line. If the builder, the owner-operator, or one of the other shippers would participate, that would allow them a percentage of control in the line equal to the amount of gas they are committing to the project. But when they commit their gas to the project, they are taking a risk; if the preliminary tariff is projected to be \$9 and it comes back at \$12, that is a problem. So they are taking a risk in committing their gas and they want to have some control over that process.

MR. DUBLER concluded that the target capital structure for both the All-Alaskan Pipeline (APP) and the Denali pipelines is 75/25 debt-to-equity and that seems to be a balance that works.

CHAIR GIESSEL thanked the presenters.

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There being no further business to come before the committee, Chair Giessel adjourned the Senate Resources Standing Committee meeting at 4:44 p.m.