

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

April 4, 2013

3:39 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Fred Dyson, Vice Chair
Senator Peter Micciche
Senator Lesil McGuire
Senator Anna Fairclough
Senator Hollis French

MEMBERS ABSENT

Senator Click Bishop

COMMITTEE CALENDAR

CS FOR SS FOR HOUSE BILL NO. 4(FIN)

"An Act relating to the Alaska Gasline Development Corporation; establishing the by the Regulatory Commission of Alaska of natural gas transportation contracts; Alaska Gasline Development Corporation as an independent public corporation of the relating to the regulation by the Regulatory Commission of Alaska of an in-state natural state; establishing and relating to the in-state natural gas pipeline fund; making certain gas pipeline project developed by the Alaska Gasline Development Corporation; relating information provided to or by the Alaska Gasline Development Corporation and its to the regulation by the Regulatory Commission of Alaska of an in-state natural gas subsidiaries exempt from inspection as a public record; relating to the Joint In-State pipeline that provides transportation by contract carriage; repealing the statutes Gasline Development Team; relating to the Alaska Housing Finance Corporation; relating to the Alaska Natural Gas Development Authority and making conforming relating to judicial review of a right-of-way lease or an action or decision related to the changes; exempting property of a project developed by the Alaska Gasline Development Corporation or construction of an oil or gas pipeline on state land; relating to the lease Corporation from property taxes before the commencement of commercial operations; of a right-of-way for a gas pipeline transportation corridor, including a corridor for a and providing for an effective date." 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

- MOVED CSSSHB 4(FIN) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 4

SHORT TITLE: ALASKA GASLINE DEVELOPMENT CORP; RCA

SPONSOR(S): REPRESENTATIVE(S) HAWKER, CHENAULT

01/16/13	(H)	PREFILE RELEASED 1/7/13
01/16/13	(H)	READ THE FIRST TIME - REFERRALS
01/16/13	(H)	RES, FIN
01/30/13	(H)	SPONSOR SUBSTITUTE INTRODUCED
01/30/13	(H)	READ THE FIRST TIME - REFERRALS
01/30/13	(H)	RES, FIN
02/04/13	(H)	RES AT 1:00 PM BARNES 124
02/04/13	(H)	Heard & Held
02/04/13	(H)	MINUTE(RES)
02/06/13	(H)	RES AT 1:00 PM BARNES 124
02/06/13	(H)	Heard & Held
02/06/13	(H)	MINUTE(RES)
02/13/13	(H)	RES AT 1:00 PM BARNES 124
02/13/13	(H)	Heard & Held
02/13/13	(H)	MINUTE(RES)
02/15/13	(H)	RES AT 1:00 PM BARNES 124
02/15/13	(H)	Heard & Held
02/15/13	(H)	MINUTE(RES)
03/01/13	(H)	RES AT 1:00 PM BARNES 124
03/01/13	(H)	Heard & Held
03/01/13	(H)	MINUTE(RES)
03/04/13	(H)	RES RPT CS(RES) 6DP 1NR 2AM (CS FORTHCOMING)
03/04/13	(H)	DP: JOHNSON, HAWKER, P.WILSON, SEATON, OLSON, SADDLER
03/04/13	(H)	NR: TUCK
03/04/13	(H)	AM: TARR, FEIGE
03/04/13	(H)	RES AT 1:00 PM BARNES 124
03/04/13	(H)	Moved CSSSHB 4(RES) Out of Committee
03/04/13	(H)	MINUTE(RES)
03/05/13	(H)	CS(RES) NT RECEIVED
03/20/13	(S)	RES AT 3:30 PM BUTROVICH 205
03/20/13	(S)	-- MEETING CANCELED --
03/21/13	(H)	FIN AT 1:30 PM HOUSE FINANCE 519
03/21/13	(H)	Heard & Held

03/21/13 (H) MINUTE(FIN)
03/26/13 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/26/13 (H) Heard & Held
03/26/13 (H) MINUTE(FIN)
03/27/13 (H) FIN AT 9:00 AM HOUSE FINANCE 519
03/27/13 (H) Heard & Held
03/27/13 (H) MINUTE(FIN)
03/28/13 (H) RLS TO CALENDAR PENDING REPORT
03/28/13 (H) IN FINANCE
03/28/13 (H) FIN AT 9:00 AM HOUSE FINANCE 519
03/28/13 (H) Heard & Held
03/28/13 (H) MINUTE(FIN)
03/28/13 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/28/13 (H) Heard & Held
03/28/13 (H) MINUTE(FIN)
03/29/13 (H) RLS TO CALENDAR PENDING REPORT
03/29/13 (H) IN FINANCE
03/29/13 (H) FIN AT 9:00 AM HOUSE FINANCE 519
03/29/13 (H) -- MEETING CANCELED --
03/29/13 (H) FIN AT 1:30 PM HOUSE FINANCE 519
03/29/13 (H) Heard & Held
03/29/13 (H) MINUTE(FIN)
04/01/13 (H) RLS TO CALENDAR PENDING REPORT
04/01/13 (H) IN FINANCE
04/01/13 (H) FIN RPT CS(FIN) NT 7DP 2NR 2AM
04/01/13 (H) DP: HOLMES, MUNOZ, NEUMAN, THOMPSON,
T.WILSON, COSTELLO, AUSTERMAN
04/01/13 (H) NR: EDGMON, STOLTZE
04/01/13 (H) AM: GARA, KAWASAKI
04/01/13 (H) TRANSMITTED TO (S)
04/01/13 (H) VERSION: CSSSHB 4(FIN)
04/01/13 (H) FIN AT 9:00 AM HOUSE FINANCE 519
04/01/13 (H) Bill Postponed To 4/1/13 @ 1:30 Meeting
04/01/13 (H) FIN AT 1:30 PM HOUSE FINANCE 519
04/01/13 (H) Moved CSSSHB 4(FIN) Out of Committee
04/01/13 (H) MINUTE(FIN)
04/02/13 (S) READ THE FIRST TIME - REFERRALS
04/02/13 (S) RES, FIN
04/02/13 (S) RES AT 3:30 PM BUTROVICH 205
04/02/13 (S) Heard & Held
04/02/13 (S) MINUTE(RES)
04/03/13 (S) RES AT 3:30 PM BUTROVICH 205
04/03/13 (S) Heard & Held
04/03/13 (S) MINUTE(RES)
04/04/13 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

FRANK RICHARDS, Manager
Pipeline Engineering
Alaska Gasline Development Authority (AGDC)
Anchorage, Alaska

POSITION STATEMENT: Discussed contract carrier versus common carriage issues would talk about contract and common carriers and confidentiality and its implications for costs and moving a pipeline project forward.

DARYL KLEPPIN, Commercial Manager
Alaska Gasline Development Authority (AGDC)
Anchorage, Alaska

POSITION STATEMENT: Provided history and the structure behind contract carriage and common carrier issues with pipelines.

STUART GOERING, Assistant Attorney General
Department of Law (DOL)
Anchorage, Alaska

POSITION STATEMENT: Answered questions about regulatory issues relating to the pipeline proposed in HB 4.

RENA DELBRIDGE, staff to Representative Hawker
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions on provisions in HB 4 for the sponsors.

BONNIE HARRIS, Assistant Attorney General
Department of Law (DOL)
Anchorage, Alaska

POSITION STATEMENT: Provided her opinion on how HB 4 would be affected by provisions in AGIA.

CORI MILLS, Legislative Liaison
Department of Law (DOL)
Juneau, Alaska

POSITION STATEMENT: Related the department's view of how HB 4 is affected by AGIA provisions.

KEN VASSAR, General Counsel
Alaska Gasline Development Corporation (AGDC)
Anchorage, Alaska

POSITION STATEMENT: Offered his opinion that AGDC would not take an action that would cause them to violate AGIA.

REPRESENTATIVE HAWKER
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Joint Prime Sponsor of HB 4 reviewed its highlights and thanked the committee for its work on this legislation.

REPRESENTATIVE CHENAULT
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Joint Prime Sponsor of HB 4 reviewed its highlights and thanked the committee for its work on this legislation.

ACTION NARRATIVE

[3:39:03 PM](#)

CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:39 p.m. Present at the call to order were Senators French, Micciche, and Chair Giessel.

HB 4-ALASKA GASLINE DEVELOPMENT CORP; RCA

[3:39:26 PM](#)

CHAIR GIESSEL announced HB 4 to be up for consideration [CSSSHB 4(FIN) labeled 28-LS0021\I was before the committee]. She said that Mr. Richards and Mr. Kleppin from the Alaska Gasline Development Authority (AGDC) would talk about contract and common carriers and confidentiality and its implications for costs and moving a project forward.

[3:39:33 PM](#)

FRANK RICHARDS, Manager, Pipeline Engineering, Alaska Gasline Development Authority (AGDC), Anchorage, Alaska, introduced himself saying they were asked to talk about contract carriers, versus common carriage, where it is being used within the United States and how it can be used within Alaska. He turned the discussion over to Mr. Kleppin.

[3:40:35 PM](#)

SENATOR MCGUIRE joined the committee.

[3:40:43 PM](#)

DARYL KLEPPIN, Commercial Manager, Alaska Gasline Development Authority (AGDC), Anchorage, Alaska, said he would first cover a bit of context about the history of common carriage and contract carriage and said the Interstate Commerce Act was passed in 1887

and that set up the Interstate Commerce Commission (ICC). Its primary function because of monopolistic practices with railroads was regulating common carriage on railroads. The Interstate Commerce Act was amended in 1906 to include regulation of common carrier oil pipelines. The ICC regulated common carrier oil pipelines from 1906 to 1977 when that regulatory authority was transferred to the Federal Energy Regulatory Commission (FERC). Natural gas came into the picture in 1938 with the Natural Gas Act that set the regulatory structure for natural gas. Today FERC regulates about 200,000 miles of liquids pipelines and a similar footprint for gas pipelines in the Lower 48.

[3:42:23 PM](#)

MR. KLEPPIN explained that one of the structures of common carriage is that the shippers use it on as needed basis. They make nominations and deliver product that can vary literally from month to month, and typically, common carriers have to keep some capacity available in the pipeline for anybody that would show up.

[3:42:47 PM](#)

SENATOR FRENCH asked him to talk about where one would find a common carrier and a contract carrier. Is it about competition, the density of the marketplace or access to the pipeline, and what sort of factors would one look for in general that would lead one to say this would be a common carrier and the other would be a contract carrier?

MR. KLEPPIN replied that globally he couldn't speak to where there are common carriers or contract carriers. In his work, it's mainly a construct of U.S. regulation and typically it isn't seen in the North Sea.

SENATOR FRENCH asked how many miles of gas pipeline there are in the Lower 48.

MR. KLEPPIN replied roughly about 200,000 miles of common carrier pipelines for liquids.

SENATOR FRENCH asked how many for contract carriers.

[3:44:44 PM](#)

MR. KLEPPIN replied that he hadn't found an exact number, but it's a comparable number for gas. He explained that another thing around common carriage is there are no long term contractual commitments, although that has shifted a bit in the

last 10 years. Another issue common to both, is having credit worthy shippers (people that you let into your pipeline have the financial resources to pay the bills). And as with all pipelines there are other criteria: quality specs for products like oil, gas, and heating oil. They also have delivery points where product is taken off and those have different "spec" criteria.

Another issue with common carriers is typically they are not at 100 percent capacity, because they have to have space available for anyone who shows up on an ad hoc basis. Nominations for pipeline capacity are taken for three months out and are allocated based on those. If nominations exceed the capacity of the pipeline, typically everyone gets a prorated share of their nomination. So, for example, if your pipeline carried 100 barrels of oil and there was a nomination for 150 barrels, then everyone would get pro-rated back to 100 barrels (two-thirds). There are other pro-rata schemes, but that is the most common one.

Another difference with common carrier functions is if someone nominates 100 barrels of oil and shows up with only 90 barrels, he only pays for the 90 barrels that was shipped. So, there is no payment for everything nominated. The TransAlaska Pipeline System (TAPS) is the biggest example in Alaska of a common carrier pipeline; however, it has a bit of a bi-furcated regulatory scheme with both the FERC and the Regulatory Commission of Alaska (RCA) being involved.

MR. KLEPPIN said in the Lower 48, common carrier pipelines are very typical for big trunk lines. They came into being when the companies had discovered an oil field and tried to build a refinery next to it; most times they decided that wasn't economic, so they centralized the refineries and built the pipelines to connect the refineries.

[3:47:26 PM](#)

A lot of the original oil pipeline structure was owned by the company that owned the refinery in the oil field. So, historically, the amendments to the ICC in the early 1900s were set up to try and prevent monopolistic practices and give everybody access. Once that was done, there weren't a lot of tariff disputes during the ICC period of regulation.

SENATOR FRENCH went back to TAPS and asked why FERC is involved in what looks like an intrastate pipeline.

MR. KLEPPIN answered the history of that decision was that fundamentally the pipeline is intrastate, but the market was interstate. The logic behind FERC regulation was that by federal statute all the oil had to land in the United States. Now, it's all shipped to the West Coast, but back then there wasn't enough capacity; a lot of it was shipped to the East Coast either through the Panama Canal or around South America.

SENATOR FRENCH asked why FERC wouldn't be interested in half the volume of this pipeline that will be exported from Alaska.

MR. KLEPPIN answered that the explanation given to him was that the product will be consumed in Alaska or taken and modified by someone here for export to a country outside of the United States.

[3:49:43 PM](#)

SENATOR FRENCH asked for a further explanation of why TAPS is regulated both by FERC and the RCA and the pipeline in HB 4 is structured such that it would be regulated at a fairly light level by the RCA, and he wanted to know if there was any potential that FERC might become interested in this pipeline, because, at least half its throughput will be exported from Alaska and it will become either an interstate pipeline or an international pipeline.

STUART GOERING, Assistant Attorney General, Department of Law (DOL), Anchorage, Alaska, answered that regulation of TAPS is under the Interstate Commerce Act that allows for concurrent jurisdiction between state regulatory commissions and the FERC. Any natural gas pipeline actually falls under several different federal provisions, the primary one of which would be the Natural Gas Act, but under some circumstances it could also fall under the Alaska Natural Gas Transportation Act. As a result of that, the jurisdictional structure is different.

FERC attorneys indicate that there are several ways the FERC might acquire an interest in a pipeline like this; they have both mandatory and discretionary jurisdiction potential. They would have mandatory jurisdiction under the Alaska Natural Gas Transportation Act if the pipeline route were to cross through a foreign country: Canada, for example. And their discretionary jurisdiction would come in principally if there was a "regulatory vacuum" at the state level on an interstate commerce issue.

[3:52:26 PM](#)

Applying what is known about the current HB 4 and the current climate at FERC, it appears that FERC would not assert jurisdiction over this pipeline, Mr. Goering said, but if there were an export component, the Department of Energy would have to license that facility to export liquefied natural gas to foreign markets.

SENATOR MICCICHE clarified that although precedence in the state doesn't regulate the pipeline as FERC is involved in permitting design, construction, safety, cryogenic review of the export facility if they do, in fact, export.

MR. KLEPPIN said in contract carriage pipelines people are making large financial commitments (investors or the bond holders to build it) and they need a guaranteed revenue stream which demonstrates that investment can get paid off. It's these long term contracts and the guaranteed revenue stream from credit worthy shippers that establishes the foundation for financing the pipeline. Under contract carriage the shippers can only use it if they have contracted for usage. The recent open season for the Denali and APP pipelines had a minimum term of 20 years all the way out to 35 years; typically one gets better terms for the longer commitment. With that you get firm transportation service, which means your product will always be delivered for that period of time. And like common carrier pipelines, a contract carriers' gas stream has to meet quality specs which relate to water, CO2, and btu content, et cetera.

[3:55:27 PM](#)

He explained that the nomination process tends to be a bit more limited and is mainly around operational concerns and dealings with up and downs of delivery associated with winter peaks or summer valleys and down times; things like that. Contract pipelines also allow for interruptible service. If, for example, a company is contracted to ship 50 units of gas for 25 years and they say for whatever reason their wells or a field will be down for 3-6 months, you can notice that short window where service is available again. However, if no one fills that service, the original contract holder is required to pay for that capacity whether he uses it or not. Sometimes you hear "take or pay," but he refers to it as "pay or pay;" those are the two choices.

Examples of contract carrier pipelines are the recent Denali and APP pipelines that would both be regulated by the FERC. Other Lower 48 pipelines that have been in the news in the last four or five years are Ruby, a 42 inch pipeline that runs 650-700 miles from western Wyoming to Oregon, Rocky's Express, a

contract carrier pipeline that runs 1,600 miles from Colorado and Wyoming to Ohio. Those pipelines had open season, recourse tariffs, and negotiated rates very similar to this proposal's.

[3:58:03 PM](#)

He explained that typically gas is different than oil in that gas tends to be an end product. In a lot of cases it was used by utilities and people that just accepted it as is and used it, and they wanted certainty in terms of the product delivery, so they wanted long term contracts. On the flip side, the carrier wanted the guaranteed long term revenue stream to finance the pipeline and that's where the marriage was made.

[3:58:36 PM](#)

SENATOR FRENCH asked what sort of contracts AGDC would be looking for when it comes to precedent agreements.

MR. KLEPPIN answered that they are still developing that aspect, but likely they would have minimum contract terms of 20 years and maybe much longer. This gets into the issue of the kind of deal one brokers; one could potentially sign on for a shorter term and pay a higher rate.

SENATOR FRENCH commented that it's kind of like going to Cost Co.; if you buy in bulk and buy a lot you get the best price. If you want to go to the local drug store and buy something there you are going to pay more.

MR. KLEPPIN added that there is a tier structure typically for gas pipelines; you may have two or three levels of shippers; it's a function of volume and the term.

SENATOR FRENCH asked who gets the best deal; the person who ships the most?

MR. KLEPPIN replied typically yes.

SENATOR FRENCH asked if you take less you're going to pay more.

MR. KLEPPIN replied not necessarily; the other factor is the term.

SENATOR FRENCH asked him to clarify that they are starting at a 20 year contract, so it's not as if a six-month contract is possible.

MR. KLEPPIN replied that typically a long term is needed to finance the investment in the pipeline.

[4:00:40 PM](#)

SENATOR MICCICHE said that common carriers have contracts that are only hours long in peak times and asked how that would work in a contract carrier pipeline.

MR. KLEPPIN answered that you could have a very short term contract, but only if capacity was available in the pipeline. However he didn't know how likely that would be.

SENATOR MICCICHE asked if someone has excess capacity could someone else purchase a small piece of that in an individual side contract that may go to a common carrier pipeline.

MR. KLEPPIN replied that could be a possibility.

SENATOR FRENCH said he wasn't sure if the point of this bill was to just build a piece of pipe from the North Slope to Cook Inlet and say we have a pipeline or to get low cost gas to residents of the state. He kept seeing the Nikiski LNG plant as the anchor tenant getting the best rate and he was curious about how it would work for a utility whose needs are not stable and vary from very low amounts in the summer to very high amounts in the winter and some peaks. That doesn't fit very well with a contract carrier model when you're looking at a 20-year stable supply. Enstar doesn't burn the same amount of gas every day; it burns wildly different volumes based on the time of year.

[4:02:33 PM](#)

MR. KLEPPIN replied that a lot of those questions get answered in the terms and conditions for the tariff.

[4:03:06 PM](#)

MR. RICHARDS said the contract carriage language as specified in the bill is in Chapter 8, Article 1, on page 36.

MR. KLEPPIN said that was a good point. The whole point of why contract carriage is needed, and hence the new regulatory section in AS 42.08, is because to this point Alaska has not had to deal with it. A common misconception about contract carriers is that small companies' users cannot access them and that is just not true. There is the whole process around open seasons and going out and soliciting the market whenever you have opportunities for interruptible service or expansion.

Another misconception is that oil pipelines can be expanded and gas pipelines can't, but they can be; both can be expanded. The language in the bill allows for expansion of the pipeline in an open season and refiling of recourse tariffs that cover the expansion. The caveat is that expansions would only be acceptable if the AGIA statute was no longer in force (no licensee), and also, if you had potentially gas volumes south of the 68th parallel (since AGIA limits gas volumes to 500 bcf off the North Slope which is defined as north of the 68th parallel). For example, if you had a gas discovery in the Nenana Basin, they could access the pipeline through an expansion. It is specifically addressed in the language.

[4:05:36 PM](#)

CHAIR GIESSEL asked how often they would have open seasons. Is it a scheduled event or a one-time occurrence?

MR. KLEPPIN replied that open season could occur multiple times; it will occur at the beginning when the pipeline, but if a pipeline has unfilled capacity, be it interruptible or a contracted shipper is unable to fill his volume for whatever reason, you would have an open season. You could also have one if people come to you with proposals that are within the AGIA constraints to expand the pipeline. The requirements for open season are defined in the bill at different points.

[4:05:54 PM](#)

SENATOR DYSON joined the committee.

CHAIR GIESSEL asked if the pipeline's capacity could be increased by using compression south of the 68th parallel.

MR. KLEPPIN answered yes.

SENATOR DYSON asked if increasing the pressure wouldn't get into the problem of phase change with the product being carried.

MR. KLEPPIN answered that he was not a pipeline engineer, but he thought that was correct.

MR. RICHARDS replied yes.

[4:07:22 PM](#)

MR. KLEPPIN said the shippers, in particular utilities, need to know that their volumes and costs are guaranteed, because having the supply is important. As investors, the bond holders need to

have certainty around the revenue stream to make these large investments.

4:08:23 PM

CHAIR GIESSEL asked if he had had discussions with any of the increasing mining opportunities in the Interior (Livengood and Donlin Creek), which would use more natural gas than the City of Fairbanks.

MR. KLEPPIN responded that they had talked to potential users of the gas system, including mines in the Interior, and had addressed it in their initial report. Those users do have large energy demands and gas would be one way to fill them.

CHAIR GIESSEL said there is a gas storage facility now on the Kenai which isn't full to capacity yet, but that would be another way of addressing the peaks and valleys that would affect a utility purchasing from the pipeline as well.

MR. KLEPPIN agreed that was correct.

CHAIR GIESSEL said the focus of this committee and the Special Committee on Energy was getting the natural gas to Alaskans first and creating more industry in the state. Agrium, for instance, could be brought back on line with more than 300 jobs.

4:10:26 PM

MR. RICHARDS said another topic they were asked to talk about was the issue of confidentiality and how that benefits the project moving forward through commercial terms and how it impacts the project in working with other entities that have crucial or vital information that would not require the state through AGDC to duplicate efforts.

4:10:58 PM

He said one of the biggest challenges they have had is the inability to hold certain information confidential, and certain parties that have done work have indicated that if he had the ability to hold it confidential they would likely provide that to them. This is one of their key aspects, because the legislature instructed them in HB 369 to use the money wisely, not duplicate efforts, and not overspend. This year they are looking at the alignment south of Livengood in hopes of gaining confidentiality provisions under HB 4, which would allow them to go out to those that have done the work ahead of them along the Dalton Highway from Livengood north to Prudhoe Bay where

thousands of bore holes have been punched by previous entities that have very valuable information.

4:12:51 PM

MR. KLEPPIN said on the commercial side, business discussions can't occur with other entities if they have to share confidential information (line up volumes, timing, and price) before submitting a contract to the RCA.

SENATOR DYSON said that is a very important point.

4:13:48 PM

CHAIR GIESSEL asked if there were any additional questions, and finding none announced that the committee would take up amendments.

4:14:48 PM

At ease from 4:14 to 4:16 p.m.

4:16:48 PM

CHAIR GIESSEL called the meeting back to order and said a quorum was present as follows: Senators McGuire, Dyson, French and herself; Senator Micciche had stepped out briefly.

SENATOR FRENCH moved Amendment 1.

28-LS0021\I.24
Bullock

AMENDMENT 1

OFFERED IN THE SENATE BY SENATOR FRENCH
TO: CSSSHB 4(FIN)

Page 54, line 15, following "14":

Insert a new paragraph to read:

"(1) "affiliated interest" has the meaning given in AS 42.06.630;"

Re-number the following paragraphs accordingly.

SENATOR DYSON objected for discussion purposes.

SENATOR FRENCH explained that Amendment 1 provides a definition of "affiliated interest" by reference to existing law. He recalled that the attorneys listening to the meeting had a concern that this chapter is seeking to have the instate gas pipeline regulated by its terms and its terms alone, and yet it

doesn't have a definition. The RCA might be "groping" or "stretching" to find a definition outside of it and it seems safer to put a definition that is already on the books in the chapter for them to find when the time comes.

CHAIR GIESSEL recalled Mr. Goering from the Department of Law mentioning that it could be a possibility and asked the sponsor to comment.

[4:18:49 PM](#)

RENA DELBRIDGE, staff to Representative Hawker, sponsor of HB 4, Alaska State Legislature, Juneau, Alaska, explained that the sponsor had consulted with the attorneys and realized that language on page 39, lines 1-4, gives the RCA the ability to write regulations as necessary to carry out the administration of this chapter and they believe that also applies to definitions that are new or unusual to the RCA. They have confidence that the RCA will have the ability and sense to look to those for the definitions. They appreciate the intention, but believe that the amendment is not necessary.

CHAIR GIESSEL said the definition does exist elsewhere in law.

MS. DELBRIDGE agreed and said that the RCA has definitions for "affiliated interest" in AS 42.05, Public Utility Regulation, and AS 42.06, the State Pipeline Act. They believe that "affiliated interest" is well enough understood that the RCA can write the regulations required to define that term under this new regulatory chapter.

[4:20:00 PM](#)

SENATOR MICCICHE asked her to repeat the location of the definition.

MS. DELBRIDGE noted that language at the top of page 39 says the RCA can adopt regulations necessary and proper to the performance of the duties of the commission under this chapter.

SENATOR FRENCH asked for the department's opinion.

[4:20:43 PM](#)

MR. GOERING said it is true that the RCA has authority to adopt regulations and that is one method of dealing with the definition (as long as that definition would not be inconsistent with AS 42.08), but the only disadvantage is that the regulation process will take up to two years. The Administrative Procedures Act imposes minimum times and if time is of the essence, leaving

extensive regulations to the RCA isn't consistent with timeliness.

CHAIR GIESSEL asked if it was not appropriate for the RCA to refer to the definition that is already in statute.

MR. GOERING replied that the definitions, which are already in statute, are limited to the chapter they are in (AS 42.06.630 and AS 42.05.990). In both cases the definitions are limited to those particular chapters and the commission in this situation were there not a definition in AS 42.08 would very likely look to other jurisdictional statutes for a definition they could apply by analogy. He emphasized they would do that by analogy and not because the definitions directly apply to the situation in hand.

SENATOR FRENCH pointed out that on page 36, section 21 put into effect a new chapter and lines 24-25 say "this chapter applies to the regulation of instate natural gas pipelines". He thought this chapter should be as complete as possible. They have heard there might be a two-year delay in promulgating regulations and this is a definition that is on the books already and poses no threat to anyone.

[4:23:38 PM](#)

CHAIR GIESSEL asked Senator Dyson if he removed his objection. He maintained his objection.

At ease from 4:23 to 4:24 p.m.

[4:24:14 PM](#)

CHAIR GIESSEL asked for a roll call vote. Senator French voted yea; Senators Dyson, Micciche, McGuire, and Giessel voted nay; therefore Amendment 1 failed.

[4:25:47 PM](#)

SENATOR FRENCH moved Amendment 2.

28-LS0021\I.22
Bullock

AMENDMENT 2

OFFERED IN THE SENATE
TO: CSSSHB 4(FIN)

BY SENATOR FRENCH

Page 4, line 26:

Delete "or is no longer receiving the inducements in AS 43.90.110(a)"

Insert "under AS 43.90.240 or has commenced commercial operations"

Page 10, lines 11 - 12:

Delete "or is no longer receiving the inducements in AS 43.90.110(a)"

Insert "under AS 43.90.240 or has commenced commercial operations"

Page 31, line 29:

Delete "or is no longer receiving the inducements in AS 43.90.110(a)"

Insert "under AS 43.90.240 or has commenced commercial operations"

Page 41, lines 25 - 26:

Delete "or is no longer receiving the inducements in AS 43.90.110(a)"

Insert "under AS 43.90.240 or has commenced commercial operations"

Page 49, line 13:

Delete "or is no longer receiving the inducements in AS 43.90.110(a)"

Insert "under AS 43.90.240 or has commenced commercial operations"

SENATOR DYSON and SENATOR MCGUIRE objected for discussion purposes.

SENATOR FRENCH explained that it had been stated several times to not bump this project up against the legal requirements of AGIA and Amendment 2 effectuates that intention more powerfully. He pointed out that AS 43.90.440 (a) provides that the state grant licensee assurances that the licensee has exclusive enjoyment of inducements provided under this chapter for the commencement of commercial operations. He said one interpretation of this phrase is that if the licensee is no longer receiving the inducements, then there is no longer a need for exclusive enjoyment. In other words, the exclusivity granted by AS 43.90.440 is only available for the period in which the inducements are being received. However, in order make this argument with a straight face, you have to ignore the fact that the legislature has used the phrase "before commencement of

commercial operations" twice in AS 43.99.440 (a). In addition to that phrase, the next sentence in subsection (a) states:

If, before commencement of commercial operations the state extends to another person...a grant of state money for the purpose of facilitating the construction of a competing natural gas pipeline project, the licensee is entitled to payment equal to three times the total amount of the expenditures incurred.

So, he thought this use of an explicit statement twice in the same subsection would override any implied intent that could be deduced from the rest of the subsection. Senator French explained that he was trying to keep the state from having to pay treble damages. He said the legislature spent an enormous amount of time - maybe two weeks in the Senate Judiciary Committee - where they talked a lot about treble damages and all the different ways of running afoul of AGIA in the hopes of someday stimulating a small diameter pipeline while waiting for the big one to happen. His view was that the language in this amendment effectuates that purpose better. He wanted to hear from the Department of Law on this issue and reminded them that TransCanada will vigorously defend the rights Alaska had granted them and why not stay out of court if possible?

CHAIR GIESSEL said that amendment was certainly well intended, but she pointed out that the goal of AGDC is to ultimately merge with that TransCanada pipeline. She asked Ms. Harris from the Department of Law to respond.

[4:28:48 PM](#)

BONNIE HARRIS, Assistant Attorney General, Department of Law (DOL), Anchorage, Alaska, asked for the question to be restated.

SENATOR FRENCH said if the purpose is to avoid bumping into the treble damages aspect of AGIA, the language as it exists in the bill with respect to no longer receiving inducements opens up a large loophole under which the proponents of this line could say AGIA didn't get the capital funds they requested this year for their reimbursements. If the Finance Committee didn't fund their requests and they were no longer receiving inducements, therefore AGDC could start building a bigger pipeline, because the funds were cut off. He didn't think TransCanada would see it that way based on the AGIA statute that says it's all about the commencement of commercial operations.

MS. HARRIS responded that Senator French was correct that the AGIA provision in AS 43.90.440 referred to the treble damages or project assurances and there is no provision in that statute that allows for a pipeline to not be competing just because payments are no longer being made to the licensee under AGIA. She explained that AGIA has the definition for "competing pipeline," and the time period for a competing pipeline project to occur is before commencement of commercial operations of the AGIA project. She didn't know what the AGIA licensee might make of this, but the language in the sponsors' original bill just referred to AGIA .440 and that was adequate for the DOL's review. She could not recommend the additional clause "or is no longer receiving".

SENATOR FRENCH asked if she just said the phrase "or is no longer receiving the inducements in AS 43.90.110(a)" should not be in the bill.

MS. HARRIS responded that she had no comment on whether it should be in the bill, but she didn't recommend it, because it is not consistent with AGIA.

MS. DELBRIDGE said this language had been worked on between AGDC's attorney and the DOL and now she was a little bit confused.

[4:33:03 PM](#)

SENATOR FAIRCLOUGH joined the committee.

[4:33:09 PM](#)

MS. HARRIS said the DOL did not draft this language, but they are willing to work with the sponsors on it.

[4:33:33 PM](#)

CORI MILLS, Legislative Liaison, Department of Law (DOL), Juneau, Alaska, said it had been the department's view that this bill does not violate AGIA, but having the current language may not be the most artful way to have drafted it. Violating AGIA would take an action on the part of AGDC once this bill is implemented. It might be possible to state that (not to compete with AGIA) more concisely.

CHAIR GIESSEL remarked that language on page 4, line 25, of HB 4 says: "...unless the project for which a license is issued under AS 43.90 has been abandoned or is no longer receiving inducements..." and that seemed to be a very inclusive pairing

of two phrases, part of which Senator French proposes to put in in his first reference in Amendment 2.

[4:35:28 PM](#)

At ease from 4:35 to 4:36 p.m.

[4:36:11 PM](#)

CHAIR GIESSEL called the meeting back to order and invited Mr. Vassar to comment.

KEN VASSAR, General Counsel, Alaska Gasline Development Corporation (AGDC), Anchorage, Alaska, explained that the language they are talking about has to do with the contract rights of the AGIA licensee. Those rights were established when the AGIA licensee received its license and in that sense, those contract rights are protected by the contract clause of the United State Constitution. So, regardless of what this legislation says, those contract rights will remain in place and nothing in it can terminate or abridge them without violating the U.S. Constitution.

The language they are talking about is an effort to assure that if AGIA is no longer in place and the licensee under it no longer has those rights that AGDC would be free to develop a larger pipeline. But in the meantime this particular language is not mandatory; it's permissive. It only allows them to consider a larger pipeline under those circumstances where AGIA isn't an issue any longer. AGDC will not take an action that would cause them to violate AGIA. That is the intent of this language and that is the way they would interpret it.

CHAIR GIESSEL said it seems pretty clear that as she looks at page 10, lines 9-12, the corporation may not develop or construct a natural gas pipeline that is competing with AS 43.90.440 or the whole chapter that is referred to AS 43.90.

MS. DELBRIDGE said she believed that the language was sufficient backstop to allow AGDC to proceed once there is no longer a valid license in effect under AGIA. Two state commissioners will be appointed by the governor to the board of AGDC, which is an additional backstop that protects the state from any AGDC action.

SENATOR MICCICHE said he had been through every one of the items in Amendment 2 and clearly the intent of AGDC is to wait for the project to be abandoned.

CHAIR GIESSEL asked Senator Dyson if he maintained his objection.

SENATOR DYSON answered yes.

CHAIR GIESSEL asked Senator French for his closing remarks.

SENATOR FRENCH said they had heard a variety of legal opinions and crafting something like this more carefully, particularly with having two pipelines side by side, is the better approach. Clearly no longer receiving the inducements injects some uncertainty, so why do it? What is the upside?

CHAIR GIESSEL asked for a roll call vote. Senator French voted yea; Senators Fairclough, McGuire, Dyson, Micciche, Giessel voted nay; therefore Amendment 2 failed. [Senator Micciche clarified that he voted nay.]

[4:41:30 PM](#)

SENATOR FRENCH moved Amendment 3.

28-LS0021\I.20
Bullock

AMENDMENT 3

OFFERED IN THE SENATE BY SENATOR FRENCH
TO: CSSH4 4(FIN)

Page 36, line 5:

Delete "AS 42.08.320(b) - (d)"
Insert "AS 42.08.320(b) and (c)"

Page 43, lines 2 - 6:

Delete "(1) conclude that a precedent agreement or related contract negotiated at arm's length between the parties is just and reasonable unless the commission finds that unlawful market activity affected the rate or unfair dealing, such as fraud or duress, affected the formation of the contract;
(2)"

Page 43, lines 14 - 25:

Delete all material.

Reletter the following subsection accordingly.

Page 43, line 26:

Delete "If a precedent agreement or related contract is not arm's length, the"
Insert "The"

Page 43, lines 28 - 31:

Delete "normally applied under AS 42.06.140. If the commission is reviewing a precedent agreement under (c)(2) of this section, the commission may consider the in-state natural gas pipeline carrier's approved recourse tariff, including the cost data underlying that tariff"

Insert "applied under AS 42.06.140"

SENATOR FAIRCLOUGH objected for discussion purposes.

SENATOR FRENCH explained that the gist of Amendment 3 was to return the provisions for RCA review to the just and reasonable standard that has been used in analyzing utility rates in Alaska for the entirety of its existence of more than 30-years and has been tested through a huge body of decisions and litigation. He saw no reason offered by the sponsors to change that standard; it really boils down to a monopoly pipeline having some oversight by a regulatory body to ensure that the Alaskans that are getting gas from this pipeline are getting it at the lowest price possible.

He said the most thorough standard and the most commonly used standard is just and reasonable; it's not overbearing. The best example, which he focused on yesterday, was at the top of page 43 that commands the RCA to find that precedent agreements are just and reasonable unless it finds that unlawful market activity or unfair dealings such as fraud or duress - what he would call criminal conduct - affected the rate. So, frankly, anything short of criminal conduct is commanded to be allowed by the commission and he didn't see why that would be necessary if this is about protecting Alaskans and making sure they get a fair deal on gas coming off the North Slope.

MS. DELBRIDGE responded that this amendment addresses the review of precedent agreements, which are the negotiated contracts. This legislation builds in that precursor, the initial recourse tariff. In that initial recourse tariff the RCA determines a cost based rate that has a reasonable rate of return, a reasonable depreciation method, and a reasonable capital structure built into it. So, the RCA will have determined a cost based rate for this pipeline that anyone is able to get service on without negotiating. Ninety nine percent of people that

negotiate with this pipeline will be negotiating a lower rate than that.

MS. DELBRIDGE said the FERC, in regulating contract carrier pipelines, allows for negotiated rates. They have allowed for negotiated rates since 1996. When it looks at a contract the FERC doesn't look at the rate in that negotiated contract; they make sure that that contract was made fairly and that nobody negotiated terms one is not allowed to negotiate (because they have to be uniform to all shippers). They approach it as a rate negotiated by two parties on relatively equal footing who are freely entering into the contract and have decided that this is a fair price for a fair service; they need to stand by that contract and it is, therefore, reasonable. This will be reasonable, but it still has had that initial recourse tariff that is RCA cost-based and approved.

4:45:55 PM

MS. DELBRIDGE said they understand that in traditional utility regulation the RCA uses a just and reasonable standard and that has worked for a long time. However, this is not a public utility pipeline; the RCA has never had a contract carrier natural gas pipeline before it. The reality is that as you bring something new into the state's paradigm it is very appropriate to bring in a means of regulating the pipeline.

The sponsors believe that the just and reasonable standard as evidenced at arm's length is quite reasonable and honors the ability of people to freely enter into contracts, absent fraud, market duress or unfair dealing. And if these parties are affiliated, again, there is a much heightened level of scrutiny by the RCA to make sure that Alaskans are not getting gamed.

SENATOR DYSON remembered from earlier discussions that a utility in the classic sense is likely to be one of several organizations that are shipping through this pipe.

MS. DELBRIDGE added that public utilities might be customers, but it's unlikely that there will be sufficient demand without other customers beyond public utilities. That has yet to be determined.

SENATOR MCGUIRE pointed out that subsection (2) on page 43, lines 6-13, is an additional consumer rights protection. It says the RCA has power to review and conduct an investigation and hearing to determine whether the contract is just and reasonable. She also wanted to remind people that this just and

reasonable standard has not always worked for consumers. It failed in Cook Inlet with RCA's review of contracts between Enstar and ConocoPhillips, for example, where another rate would have been used, like the Tokyo gas rate, as opposed to the rate that would have been very favorable (\$8/mcf for 20 years about 4 years ago). So, she wanted it on the record that the sponsors of this bill have struck a good balance, but it's important that the possible (not always the perfect) goes forward for consumers, as well. Sometimes that's the most important thing. You can sit back and say you'd like to have an energy rate to be the ideal amount, but it's better to have energy and this was the colossal failure in the Cook Inlet. She said she supported the consumer protection that is embedded in this bill and opposed the amendment.

[4:49:20 PM](#)

CHAIR GIESSEL said she appreciated her alluding to the Marathon contract with Enstar and since that misstep occurred, the RCA legislation was passed requiring the RCA to take the cost to consumers into account. She asked Ms. Delbridge if she recalled that correctly.

MS. DELBRIDGE answered that when the legislature passed HB 280 in 2010 (the Cook Inlet Recovery Act) it gave the RCA permission to consider the costs of failure to approve a contract. Sometimes it's about the supply and there can be factors that outweigh the lowest possible cost.

CHAIR GIESSEL commented that was important to bear in mind. She asked Senator Fairclough if she maintained her objection.

SENATOR FAIRCLOUGH answered yes.

CHAIR GIESSEL asked Senator French for closing remarks.

SENATOR FRENCH said that Senator McGuire made a good point, but he didn't get the logical follow through to lowering a high standard if it did not protect consumers. You raise it and this bill has clearly a less rigorous standard than just and reasonable and one that is more industry friendly.

[4:51:25 PM](#)

SENATOR MCGUIRE said she didn't think it was necessarily a lower standard; it's a different standard. The state is going into uncharted waters and that requires a lot of thought about how they are going about that. It requires reflection on past

standards and how those may have failed in certain areas. It is a different standard that is embedded with consumer rights.

CHAIR GIESSEL asked for a roll call vote. Senator French voted yea; Senators McGuire, Fairclough, Dyson, Micciche and Giessel voted nay; therefore Amendment 3 failed.

[4:53:02 PM](#)

SENATOR FRENCH moved Amendment 4.

28-LS0021\I.21
Bullock

AMENDMENT 4

OFFERED IN THE SENATE BY SENATOR FRENCH
TO: CSSSHB 4(FIN)

Page 1, line 10:

Delete "**that is a contract carrier**"

Page 1, line 12, through page 2, line 5:

Delete "**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;**"

Page 8, lines 22 - 23:

Delete all material.

Re-number the following paragraphs accordingly.

Page 11, lines 26 - 29:

Delete all material.
Insert "AS 38.35.120."

Page 25, line 27, through page 26, line 6:

Delete all material.

Re-number the following bill sections accordingly.

Page 26, line 13, through page 32, line 2:

Delete all material.

Renumber the following bill sections accordingly.

Page 35, line 13, through page 55, line 6:
Delete all material.

Renumber the following bill sections accordingly.

Page 55, lines 27 - 29:

Delete "AS 38.35.100(d), as amended by sec. 8 of this Act, AS 38.35.120(a), as amended by sec. 9 of this Act, AS 38.35.120(b), as amended by sec. 10 of this Act, and AS 38.35.121, enacted by sec. 11 of this Act,"

Page 55, line 30:

Delete "dates of secs. 3 and 8 - 11"
Insert "date of sec. 3"

Page 55, line 31:

Delete "dates of secs. 3 and 8 - 11"
Insert "date of sec. 3"

Page 56, lines 1 - 4:

Delete ", AS 38.35.100(d), as amended by sec. 8 of this Act, AS 38.35.120(a), as amended by sec. 9 of this Act, AS 38.35.120(b), as amended by sec. 10 of this Act, and AS 38.35.121, enacted by sec. 11 of this Act"

Page 57, lines 12 - 16:

Delete "lines of
(1) AS 38.35.120 from "Covenants required to be included in lease" to "Covenants required to be included in lease to a pipeline that is not a natural gas pipeline contract carrier"; and
(2)"
Insert "line of"

SENATOR DYSON and SENATOR FAIRCLOUGH objected.

SENATOR FRENCH explained that this amendment splits the bill in two and lets half the bill go forward and holds the other half back. The half it holds back is the part they had been talking about today: the contract carrier provisions and all the new law that really begins about the middle of the bill and goes forward. He believed that those provisions had not been

thoroughly vetted, and given the timing of the open season, they could be perfected over the summer. For example, he thought this bill should get a hearing in front of the RCA and get revised next year in time for the open season that will take place at the end of the year.

He said there isn't a huge rush and this is a new body of law. It's fairly clear that this is a one-of-a-kind pipeline, and given the state's sketchy history with mega projects, spending more time on these novel legal provisions was a good idea.

MS. DELBRIDGE said the sponsors would oppose this amendment, adding that these are uncharted waters to some degree for Alaska, but others have been here before. They had talked about FERC's experience both with contract carriage natural gas pipelines and in particular with the negotiated rate concept. The sponsors have built additional provisions into that regulatory framework working very closely over the past year and half with the administration, DOL, AGDC and regulatory expertise to make sure that some of Alaska's unique interests are protected, particularly as it doesn't have the competitive field like the Lower 48 does. Therefore, the bill has the open season requirement and an RCA approved initial recourse tariff in advance of shipping agreements, rules FERC doesn't have.

The sponsors believe that one of the reasons big projects in Alaska can have problems at times is because of the risk and political uncertainty. AGDC needs to know how it is going to be regulated. It needs to be able to tell shippers how they will be regulated and under what kind of a timeline and standards.

MS. DELBRIDGE said having that unknown hanging out there could be devastating going into an open season. It is important for them to have that certainty up front, particularly the ability to actually be a contract carrier. When AGDC takes bonds for this project to the raters they actually will mark off on a sheet of paper whether or not this is a common carrier or a contract carrier pipeline. That needs to be known. The financial markets also want to have that regulatory certainty.

[4:56:29 PM](#)

SENATOR MCGUIRE said she also opposed this amendment and that the sponsors had done a good job of putting in the certainty that a contract carrier status would give. She supported common carrier in the past, but she thought in a smaller market when you look at bond rating and the need for certainty of supply, the fact that in a common carrier situation you can put supply

in or not leads to production fluctuation, which they see in the state's budget right now, and that also leads to uncertainty.

So, Senator McGuire said, to make something like this a go, certainty is needed. The fact that the sponsors have gone above and beyond, given the monopolistic concerns out there, to put in the initial recourse tariff and incorporate common carrier principles into contract carrier status could be unique in the world. One possible failing of the TAPS is that it had not had enough competition as one might like, and moving forward, they want to be sure those out there who are looking for new areas to discover gas have an opportunity to get in via an open season. The RCA will be watching and so will the legislature.

[4:58:54 PM](#)

MS. DELBRIDGE said at the request of the House Resource co-chairs they took HB 4 after some significant improvements to the regulatory section before the RCA in Anchorage in an hour and 45 minute public meeting. They fielded questions from the RCA that immediately had four suggestions on clarifying improvements. One was a timeline change where they felt it was inadequate. All of those concerns were addressed in the House Finance Committee. She was not attempting to give the RCA's endorsement to the bill, but they had a chance and took advantage of it to add some commentary, and the sponsors had been responsive to it.

SENATOR FRENCH said he appreciated that there was one hearing in front of the RCA, but he thought if they were to receive a letter from the chair asking them to have a full-blown hearing, they would welcome that. It would be a hearing of more than an hour and 45 minutes and deeper thought would be given to some of the inner workings of this bill.

CHAIR GIESSEL asked Senator Fairclough if she maintained her objection.

SENATOR FAIRCLOUGH said she did.

CHAIR GIESSEL asked Senator Dyson if he maintained his objection.

SENATOR DYSON said he did.

[5:01:00 PM](#)

CHAIR GIESSEL asked for a roll call vote: Senator French voted yea; Senators McGuire, Micciche, Dyson, Fairclough and Giessel voted nay; therefore Amendment 4 failed.

SENATOR DYSON moved to pass HB 4 [version 28-LS0021\I] from committee to the next committee of referral with attached fiscal notes and individual recommendations.

SENATOR FRENCH objected. He said this bill arrived in committee barely 48 hours ago. In the two-minute opening statement given by the bill's sponsor he warned them four times that it was a complex bill. This bill envisions a \$7 billion project, a mega project, and he was deeply concerned that this committee had not done its job vetting it. They hadn't heard a single word from the commissioner or a deputy commissioner of the Department of Revenue or the commissioner or a deputy commissioner of the Department of Natural Resources; they hadn't once tested the idea that whether or not it's possible to buy \$2 gas on the North Slope as envisioned by the bill's sponsor and he just didn't know if that could be done. He thought they were passing this bill out on a paucity of information: not hearing from Cook Inlet explorers, North Slope explorers, utility companies, or regulators.

CHAIR GIESSEL noted that Senator French was absent when the commissioner and deputy commissioner of the DNR were before the committee.

5:03:19 PM

SENATOR DYSON commented that he was never in a committee in the last three or four years when these kinds of things were being considered. He started out with a significant amount of skepticism that 17 or 19 tcf/gas in Cook Inlet produce, like Senator French. Two of the Anchorage power producers are men that he had worked with for a long time and have credibility with him; they want to believe it, too. But the rate at which gas is being discovered and the number of wells that are drilling doesn't make it look like it will happen. That uncertainty is compelling for getting into a pair of suspenders while hoping the belt holds scenario.

He worried about wasting a lot of money and effort if the big Cook Inlet pipe comes into play. Over this session he had learned that pretty reasonable efforts had made to eliminate or minimize the amount of duplication of effort and getting access to geo technical data, which impressed him as well as the open season. If the really smart guys that know about markets and supply and demand show up and put their money on the table, they will know this is a viable project. That comforts him. Every one

of his concerns had been addressed better than he could have done, which also impressed him.

SENATOR DYSON said that like Senator Micciche, he was worried that this progress here would negatively affect Cook Inlet exploration, but he talked to the producers there. They say no. He says why? They say they can beat the price. If that's true in one or four years from now, they are even more confident based on what their exploration shows them that people won't show up for the open season.

[5:07:22 PM](#)

Another thing they all have to watch out for is something Eisenhower said: there is a third component to this project - the timeline. Every day they delay makes it further away from doing things at the opportune time, which Alaska has a good record of doing. He wished they knew everything they needed to know to make these critical decisions, but they don't. But based on what they know, this is a reasonable way to go forward and he had come to that conclusion reluctantly.

[5:08:52 PM](#)

SENATOR MCGUIRE said she appreciated Senator Dyson's comments and that they had all struggled with the magnitude of their decisions around this bill. This concept had been on the table for three years starting with setting up the Alaska Gasline Development Authority and empowered them with decision-making. They come back to the legislature with a report and the timeline for the series of the next steps and requests for new funding. People were nervous about that decision and studied it over the Interim. Now they have arrived at that decision making point where Alaskans are ready for legislators to stop studying and start making decisions.

She urged them to act now for the future of Alaskans. People in rural Alaska are struggling; people in Fairbanks are going bankrupt over their energy costs and now Anchorage is suffering, too. The sponsors did an excellent job of putting sideboards up: the RCA, consumer rights and the great team with Dan Fauske and his crew to look at how to get this project to market - along with the private sector. She concluded by thanking the Speaker, Representative Hawker, and Rena Delbridge for their work.

[5:11:34 PM](#)

SENATOR MICCICHE said as the price of Lower 48 gas was crashing they were signing AGIA into law and they had been at the mercy of the bill ever since. It's important for the public to

understand that they weren't designing a \$7 billion project; they were designing a legal framework that allows a state to have a role in oversight over moving a project forward.

He said this bill had been on the table all session and they had had a lot of time to observe its effects; it had been through several other committees. Stalling is an option, but he had been hearing about the state's need for natural gas from the North Slope when he still had pimples and now he is 51; Alaskans are ready to get something moving.

This bill is responsible and well-done, he said. It provides some leverage for all the other options and opportunities available to Alaskans starving for energy all the way along the pipeline right-of-way plus helping coastal Alaskans with liquefied natural gas when this project becomes a reality. Hopefully, those other projects come together and result in an incredible project. He also said he appreciated the efforts of the sponsors.

[5:13:52 PM](#)

CHAIR GIESSEL concluded by saying that this committee opened at the beginning of this session with the topic of energy, the very same topic that this committee opened with in 2007. There was a crisis at the time and a need for more natural gas in the state. They are now ready to make a decision; AGDC has said that the price tag goes up \$200 million a year for each year of delay. She knows Alaska families - mothers, young people - want these steps to be taken to bring natural gas down from the North Slope. She invited the bill sponsors to make closing remarks.

[5:15:00 PM](#)

REPRESENTATIVE HAWKER, Joint Prime Sponsor of HB 4, Alaska State Legislature, Juneau, Alaska, said all the closing remarks were heartening, because they showed the committee's diligence in understanding this challenge and this bill. This is an opportunity and an obligation to provide access and the opportunity for this state to develop its natural gas resources.

He said they have a 90-day session and the public expects them to work efficiently and effectively; and clearly they have. He thanked the whole committee for its diligence.

[5:17:17 PM](#)

REPRESENTATIVE CHENAULT, Joint Prime Sponsor of HB 4, Alaska State Legislature, Juneau, Alaska, thanked the committee for its work saying this project had been around for a while. Is it

moving too fast? And then said, "If not now, when?" His father used to say if you don't ever start you will never finish a project. He said letters in their packets from Cook Inlet producers indicated that they didn't have any concerns about a gas pipeline coming down. One fact was brought out: that they were there and if they can't produce it cheaper, they shouldn't be in business. They'll also tell you if there is a pipeline that comes down another component will use that gas and an export facility would give them options to be able sell their gas if they don't have market for it. He also said he appreciated the work and the questions the committee had asked. He stated that he would make the bill better if that were possible and this bill is the best opportunity to bring gas to Alaskans.

[5:20:42 PM](#)

CHAIR GIESSEL asked Senator French if he maintained his objection. He said yes.

CHAIR GIESSEL asked for a roll call vote; Senators Fairclough, Micciche, Dyson, McGuire and Giessel voted yea; Senator French voted nay; therefore HB 4 moved from committee.

[5:21:14 PM](#)

Finding no further business to come before the committee, Chair Giessel adjourned the Senate Resources Committee meeting at 5:21 p.m.