

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

March 18, 2015

3:18 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Shelley Hughes, Vice Chair
Representative Jim Colver
Representative Gabrielle LeDoux
Representative Cathy Tilton
Representative Andy Josephson
Representative Sam Kito
Representative Mike Chenault (Alternate)

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 132

"An Act relating to the support of the Alaska liquefied natural gas project by the Alaska Gasline Development Corporation."

- MOVED CSHB 132(L&C) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 132

SHORT TITLE: AGDC SUPPORT OF NATURAL GAS PROJECTS

SPONSOR(S): REPRESENTATIVE(S) CHENAULT

03/02/15	(H)	READ THE FIRST TIME - REFERRALS
03/02/15	(H)	RES, L&C
03/06/15	(H)	RES AT 1:00 PM BARNES 124
03/06/15	(H)	Heard & Held
03/06/15	(H)	MINUTE(RES)
03/11/15	(H)	RES AT 1:00 PM BARNES 124
03/11/15	(H)	Heard & Held
03/11/15	(H)	MINUTE(RES)
03/11/15	(H)	RES AT 6:00 PM BARNES 124
03/11/15	(H)	Heard & Held
03/11/15	(H)	MINUTE(RES)
03/13/15	(H)	RES AT 1:00 PM BARNES 124
03/13/15	(H)	Scheduled but Not Heard

03/14/15 (H) RES AT 1:00 PM BARNES 124
03/14/15 (H) -- Continued from 3/13/15 Meeting --
03/16/15 (H) RES RPT CS(RES) NT 6DP 1DNP 2NR
03/16/15 (H) DP: JOHNSON, HERRON, HAWKER, OLSON,
NAGEAK, TALERICO
03/16/15 (H) DNP: JOSEPHSON
03/16/15 (H) NR: TARR, SEATON
03/16/15 (H) L&C AT 3:15 PM BARNES 124
03/16/15 (H) Heard & Held
03/16/15 (H) MINUTE(L&C)
03/18/15 (H) L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

RENA DELBRIDGE, Staff
Representative Mike Hawker
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: On behalf of the sponsor, Representative Chenault, testified during the discussion of HB 132.

ALAN LEMASTER, Owner and President
Gakona Junction Village
Gakona, Alaska

POSITION STATEMENT: Testified in opposition to HB 132.

SCOTT DAVIS, Owner
Davis Block and Concrete Company
Kenai, Alaska

POSITION STATEMENT: Testified during the discussion of HB 132.

PAMELA THROOP, Real Estate Broker
Alaska Commercial Properties
Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to HB 132.

RANDY ELEDGE
Marsh Creek LLC
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 132.

MERRICK PIERCE, Chief Financial Officer and Member
Alaska Gasline Port Authority
Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to HB 132.

ACTION NARRATIVE

[3:18:09 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:18 p.m. Representatives Hughes, Josephson, Kito, Colver, Tilton, Chenault (alternate) and Olson were present at the call to order. Representative LeDoux arrived as the meeting was in progress.

HB 132-AGDC SUPPORT OF NATURAL GAS PROJECTS

[3:18:27 PM](#)

CHAIR OLSON announced that the only order of business would be, HOUSE BILL NO. 132, "An Act relating to the support of the Alaska liquefied natural gas project by the Alaska Gasline Development Corporation." [Before the committee was CSHB 132(RES)].

[3:19:00 PM](#)

RENA DELBRIDGE, Staff, Representative Mike Hawker, Alaska State Legislature, stated that HB 132 would prohibit the Alaska Gasline Development Corporation (AGDC) from working on anything other than the Alaska LNG project and the ASAP backup in-state gasline project as previously described, until the legislature and the state obtain certainty as to the outcome of the Alaska LNG project. Therefore, AGDC would be prohibited from embarking on a competing type of project until the earliest of three dates: the date at which point the state and other parties to Alaska LNG enter the next development phase called FEED [Front End Engineering & Design]; or when the state or another party to Alaska LNG withdraws from Alaska LNG; or July 1, 2017. The bill would also prohibit Alaska Gas Development Corporation (AGDC) from marketing gas that it does not have written consent or title to market. Further, it would prohibit use of the In-State Natural Gas Pipeline Fund (AS 31.25.100) for work on a project that would carry more than a majority of gas intended for export.

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ALAN LEMASTER, President; Owner, Gakona Junction Village, stated that he has resided at his current location for over 30 years, offering king salmon fishing, providing housing for travelers, and storing gas. He spoke in opposition to HB 132. He suggested that the primary purpose seemed to deny any work that

will allow the state to consider an alternative to the Alaska LNG project. If the committee agrees that Alaska LNG was the only definitive line to provide Alaskans the best and lowest cost for natural gas, there is little to be concerned about, but if something happens in the ongoing negotiations and studies over the next two years that would preclude the Alaska LNG project from progressing, it seemed wise to have an alternative plan and avoid losing time or money in gearing up again from the beginning. He offered his belief that the ASAP is a poor choice to obtain natural gas given that there is ample natural gas to power the Anchorage bowl and its neighbors for decades from the Cook Inlet natural gas reserves. Further, with a \$3.5 billion shortfall of funds available to run the state for the foreseeable future, he suggested backup plans must provide as many reasonable alternatives as possible to ensure that Alaskans can have access to natural gas over diesel fuel and wood to heat and power their homes and businesses should the Alaska LNG project fail to meet the levels of economics needed to proceed. Given these issues, and the fact that the Governor has publicly stated he will veto this bill, doesn't the legislature have more important issues to turn its attention to that will benefit the state far greater than playing with these seemingly politically-motivated delaying tactics. He thanked members for allowing him an opportunity to testify.

CHAIR OLSON responded that the bill does have sideboards. He welcomed Mr. Lemaster to call the bill sponsor or his office for further clarification.

[3:24:03 PM](#)

SCOTT DAVIS, Owner, Davis Block and Concrete Company, stated that he has been a business owner for over 36 years in the Kenai Peninsula area. He recalled struggles just to keep his company's doors open over the years and said he was fully committed to getting the Alaska Gasline completed. He said the Alaska LNG project plans to come directly to Nikiski, where a tremendous amount of future economic activity that will be generated from this location. He said he has invested in the oil and gas industry, working directly or indirectly for companies that produce oil and gas or the companies that service them. The Point Thomson project in particular has allowed his companies to invest in new employees, new facilities, and new equipment. He said he has been worried that the state will miss the opportunity to get a gasline in the state. It seemed that the governor wanted to pursue a second gasline, which has created substantial confusion about the state's priorities in

getting a gasline developed. The state was not competing with producers to create a gasline, but is competing with other projects globally. With so many questions not answered, he sympathized with the legislature's desire to create clarity around the governor's plan. He offered his support for any efforts to inject clarity into the future of the proposed gasline as Kenai businesses have a lot to gain or lose. He suggested many reasons exist for Alaskans to be optimistic about the state's future prospect for an LNG project, especially for small businesses. The state was closer today than at any other point in history to see a gasline project developed, despite the impact of low oil prices and big fiscal deficits, the Alaska LNG project appears to be moving forward. Alaskans need to know whether the state is on board with the Alaska LNG project or not. He concluded that as a business owner, he deserves clarity and would like clarity provided.

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CHAIR OLSON thanked him for participating in the Iron Dog race.

[3:26:48 PM](#)

PAMELA THROOP, Real Estate Broker, Alaska Commercial Properties, stated that she has been in business for herself for 35 years as a commercial real estate broker. She asked members to defeat HB 132 since the state has often limited itself to one project and ended up without any project. She said that Fairbanks continues to be in terrible shape in terms of high fuel costs. She urged member not to tie the governor's hands. She expressed interest in the most economic [gasline] project possible so it makes sense that the state needs to have alternatives. She offered her belief that markets are available and the controlling producers are selling natural gas all over the world. Thus, Alaska's gas needs to be in the marketplace, too. She has traveled to Texas for medical purposes and she has family who live in Houston. Her brother-in-law works for Cheniere Energy, Inc. and that company has been selling LNG to countries all over the world. In 2010, his company had come to Alaska but could find no interest. At that time Cheniere did not have a plant, now they have four trains in Sabine Pass and are also building in Corpus Christi. She said Cheniere Energy Inc. is selling gas to Korea, Japan, India, and China. She expressed frustration that Alaska's hands have been tied, artificially, and as an Alaskan she wants to have the benefit of gas revenues for her children and grandchildren. She concluded her testimony by

saying she wants the governor to have an opportunity to do what is best for the state.

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RANDY ELEDGE, Marsh Creek LLC, said he had opportunity to talk with one of the producers on the North Slope today concerning what his company wants to do to foster this opportunity. He said there are investment dollars today going to the LNG opportunity by major oil companies. He predicted independent oil companies will also follow suit. He stated that turbine manufacturers have been exploring more opportunities in the LNG market, which he viewed as the bright star in terms of profitability for oil companies today. He said he was proud to have worked for 33 years with oil producers, but he did not wish to limit their investment in Alaska. He acknowledged that global competition exists today and companies make decisions on the best investment dollars. However, Alaskans have changed their oil and gas method of taxation five times in the last several years so Alaska doesn't really offer a solid climate for the producers since the tax climate constantly changes. He sympathized with the Alaska legislature's desire for clarity. He said he was concerned about the governor since he has been "on and off." For example, Governor Walker has been looking into the recent changes of the oil tax structure; however, he previously said he would not do so. In addition, Governor Walker has now threatened to veto this bill, which Mr. Eledge said is of concern to him.

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MR. ELEDGE acknowledged that currently the price of oil is extremely low and the price of natural gas is also depressed, but through LNG the state can enjoy some of the investment and support from oil companies that can provide an opportunity for the state's economic engines. These investments could create opportunities for Alaska's employees working within the state. Further, jobs represent the key to Alaska's wellbeing, he said. He concluded by stating that Alaska's businesses deserve clarity from the governor. Further, legislators are expected to do their part so he appreciated the committee doing its part. He thanked members for the opportunity to speak today.

[3:34:14 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 132.

3:34:36 PM

The committee took an at-ease from 3:34 p.m. to 3:37 p.m.

[The committee treated it as though public testimony was reopened.]

3:37:36 PM

MERRICK PEIRCE, Chief Financial Officer and Member, Alaska Gasline Port Authority (AGPA), stated that HB 132 was designed to tie the hands of the governor, who was recently elected governor. He characterized the aforementioned as appalling. He opined that for about two decades Governor Walker has articulated the right way to move forward on a project and always advocated for large diameter gasline with an economy of scale to bring Alaska new revenue. The aforementioned would also benefit parts of the state that badly need affordable energy. He related conceptually that two natural gas pipelines were possible. First, the bullet line - which he viewed as uneconomic since it would be an \$8 million capital expenditure that would take gas to the Cook Inlet, which has a 200-year gas supply. Therefore, he opined that the bullet line doesn't make sense to him. Secondly, a large diameter pipeline with an economy of scale was another option.

MR. PEIRCE said the stark reality was that Alaska must compete with 25 other LNG projects worldwide. Furthermore, it isn't a secret that the producers have an economic interest in these competing projects. In his view, from the producer's perspective, the producers prefer to have Alaska gas stay warehoused to avoid competing with projects in Australia and Papua New Guinea. He asked members to reacquaint themselves with the Heads of Agreement, which is the fundamental agreement to the Alaska LNG project.

MR. PEIRCE referred members to the "Heads of Agreement" between the SOA, AGDC, TransCanada and ExxonMobil, Conoco Phillips, BP Exploration. Jan 14, 2014. [to Article 13.4.1, and read, "Nothing in this HOA requires any party to reach or execute any legally binding or enforceable agreement(s) or to refrain from engaging in any business whatsoever, nor does any party have any liability in connection with the subject matter of this HOA." This means that the ExxonMobil Corporation and similar producers can go forward to work on projects that compete with Alaska without any obligation in the HOA that requires Exxon to do any

project of any kind in Alaska. Thus, the fiduciary obligation of Exxon is to its shareholders, he said, not to Alaskans, which is why it will move forward with projects that make the most economic sense for the corporation, and not necessarily Alaska.

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MR. PEIRCE provided a couple of examples of bringing markets to Alaska in which the producers have simply refused to commit gas to a project. In 2012, under the Alaska Gasline Inducement Act (AGIA) there was a solicitation of interest in which a half dozen companies came in with the aggregated volume of gas was 2.8 billion cubic feet (Bcf) of gas per day. Another entity from Japan represented a consortium also looking for 2.5 Bcf gas per day, which was more than enough to do a large diameter gasline, he said, noting the consortium wanted first gas by 2019. Exxon refused to engage, he reported. In fact, some of the companies that wanted to engage were told that Exxon had projects in Canada and Australia and would be happy to sell them gas from those areas. The former governor and legislature started over with a new study to supply first gas in 2025 using a new route. In addition, very large companies have offered to buy gas at the wellhead only to be rejected. Those same companies were also told by Exxon that other projects could provide them with LNG. He characterized this bill, HB 132, as a pretty "sad piece of legislation." He emphasized that Alaska needs to move forward with the understanding that the only way to get Alaska's gas to the world markets is by first and foremost putting "Alaska's interest first" and not allowing companies that compete with Alaska to determine when and if Alaska ever gets a gasline. He thanked members for the opportunity to testify.

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CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 132.

[3:41:59 PM](#)

REPRESENTATIVE HUGHES moved to adopt Amendment 1, labeled 29-LS0623\I.3, Nauman, 3/17/15, which read

Page 3, line 5, following "party":

Insert "that holds natural gas leases in the state"

Page 3, line 16, following "party":

Insert "that holds natural gas leases in the state"

Page 4, line 13, following "party":

Insert "that holds natural gas leases in the state"

CHAIR OLSON objected for the purpose of discussion.

[3:42:37 PM](#)

MS. DELBRIDGE appreciated the committee entertaining Amendment 1. She explained that the need for the amendment arose in response to a question Representative Josephson asked at an earlier meeting. One of the three dates in time in which the temporary restriction on Alaska Gas Development Corporation (AGDC) would be lifted, which was the date that the state or another party withdrew from Alaska LNG. She acknowledged that Representative Josephson raised a good point, which was what if one of the parties was TransCanada. She noted that TransCanada and AGDC are both parties to the Alaska LNG, along with separately, the state, BP Exploration (Alaska) Inc., ExxonMobil Corporation, & ConocoPhillips Alaska, Inc. However, AGDC and TransCanada do not have gas or hold leases so they are somewhat different than the other four parties - the three producers and the state - who do in fact hold an interest in gas in the project. So if one of the three producers or the state withdraws from project, there would be a much greater likelihood that everyone would reevaluate the project in terms of it moving forward. However, if TransCanada or AGDC withdraws from the project, the circumstances would be important, but would not rise to the same level of significance.

MS. DLEBRIDGE explained that Amendment 1 would make clear that AGDC's temporary restriction goes away at one of three dates, including the date that the state or another party who holds natural gas leases in the state withdraws from Alaska LNG. Therefore, if TransCanada or AGDC withdraws from the project, the restriction will stay in place, but if the state or one of the three producers withdraws, the restriction on AGDC will be lifted and the corporation would be able to pursue a larger export geared project.

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CHAIR OLSON removed his objection.

There being no further objection, Amendment 1 was adopted.

[3:45:13 PM](#)

CHAIR OLSON stated that he had also received a second amendment but it was four hours after the committee's cut off time to receive amendments for consideration by the committee. The committee strongly supports members having adequate time to consider amendments prior to the meeting. He anticipated the proposed amendment would be presented on the floor.

[3:45:57 PM](#)

REPRESENTATIVE HUGHES moved to report the proposed committee substitute (CS) for HB 132 (RES), as amended, out of committee with individual recommendations and the accompanying fiscal notes.

[3:47:06 PM](#)

REPRESENTATIVE JOSEPHSON objected.

[3:47:15 PM](#)

REPRESENTATIVE JOSEPHSON explained that the testifiers before the House Resources Standing Committee, Mr. Fauske and Mr. Richards, Alaska Gas Development Corporation (AGDC), said nothing precluded what they were doing, which was limited in scope to moving from a 600 level of pipe to a 900 level, that would move from 1.4 billion cubic feet (Bcf) to potentially 2.4 billion Bcf. He recalled they were ordered to do that by the board and will merely "run some numbers"; however, fundamentality there was nothing in House Bill 4 that precluded this, notwithstanding that Senate Bill 138 was supposed to be directional and was to "be the game." However, once that was lifted, House Bill 4 was freed up and could become other things, and the legislature needs to wait and see what that will be. Therefore, he will be voting no.

[3:48:26 PM](#)

A roll call vote was taken. Representatives Hughes, LeDoux, Colver, Tilton, and Olson voted in favor of reporting the CSHB 132(RES) from committee, as amended. Representatives Kito and Josephson voted against it. Therefore, CSHB 132(L&C) was

reported out of the House Labor and Commerce Standing Committee by a vote of 5-2.

[3:49:05 PM](#)

REPRESENTATIVE COLVER asked to comment for the record that he supported moving the bill from committee to provide an opportunity for the entire house to vote; however, he has some trepidation on this bill.

[3:49:33 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 3:49 p.m.