

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

April 6, 2015

1:32 p.m.

**MEMBERS PRESENT**

Representative Benjamin Nageak, Co-Chair  
Representative David Talerico, Co-Chair  
Representative Mike Hawker, Vice Chair  
Representative Craig Johnson  
Representative Kurt Olson  
Representative Paul Seaton  
Representative Andy Josephson  
Representative Geran Tarr

**MEMBERS ABSENT**

Representative Bob Herron

**COMMITTEE CALENDAR**

CONFIRMATION HEARING(S):

Board of Fisheries

Orville Huntington - Huslia

- CONFIRMATION(S) ADVANCED

HOUSE BILL NO. 105

"An Act relating to the programs and bonds of the Alaska Industrial Development and Export Authority; related to the financing authorization through the Alaska Industrial Development and Export Authority of a liquefied natural gas production plant and natural gas energy projects and distribution systems in the state; amending and repealing bond authorizations granted to the Alaska Industrial Development and Export Authority; and providing for an effective date."

- HEARD & HELD

HOUSE CONCURRENT RESOLUTION NO. 6

Proclaiming July 2015 to be Alaska Peony Month.

- SCHEDULED BUT NOT HEARD

HOUSE BILL NO. 179

"An Act relating to donations of fish and game to food service programs."

- PENDING REFERRAL

**PREVIOUS COMMITTEE ACTION**

BILL: HB 105

SHORT TITLE: AIDEA: BONDS;PROGRAMS;LOANS;LNG PROJECT

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/11/15	(H)	READ THE FIRST TIME - REFERRALS
02/11/15	(H)	ENE, RES, L&C, FIN
02/17/15	(H)	ENE AT 10:15 AM BARNES 124
02/17/15	(H)	Heard & Held
02/17/15	(H)	MINUTE(ENE)
02/24/15	(H)	ENE AT 10:15 AM CAPITOL 17
02/24/15	(H)	Moved CSHB 105(ENE) Out of Committee
02/24/15	(H)	MINUTE(ENE)
02/25/15	(H)	ENE RPT CS(ENE) 7DP
02/25/15	(H)	DP: NAGEAK, WOOL, TILTON, TALERICO, CLAMAN, COLVER, VAZQUEZ
03/09/15	(H)	RES AT 1:00 PM BARNES 124
03/09/15	(H)	Heard & Held
03/09/15	(H)	MINUTE(RES)
03/14/15	(H)	RES AT 1:00 PM BARNES 124
03/14/15	(H)	-- Continued from 3/13/15 Meeting --
03/25/15	(H)	L&C REFERRAL REMOVED
04/06/15	(H)	RES AT 1:00 PM BARNES 124

**WITNESS REGISTER**

ORVILLE HUNTINGTON, Appointee

Board of Fisheries

Huslia, Alaska

**POSITION STATEMENT:** Testified as appointee to the Board of Fisheries.

RICKY GEASE, Executive Director

Kenai River Sportfishing Association (KRSA)

Soldotna, Alaska

**POSITION STATEMENT:** Testified in support of Mr. Orville Huntington's appointment to the Board of Fisheries.

REED MORISKY

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of Mr. Orville Huntington's appointment to the Board of Fisheries.

GENE THERRIAULT, Energy Policy and Outreach Director  
Alaska Energy Authority (AEA)  
Alaska Industrial Development and Export Authority (AIDEA)  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** During the hearing on HB 105, assisted in providing a PowerPoint presentation on the Interior Energy Project (IEP).

NICHOLAS SZYMONIAK, Energy Infrastructure Development Officer  
Alaska Industrial Development and Export Authority (AIDEA)  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** During the hearing on HB 105, assisted in providing a PowerPoint presentation on the Interior Energy Project (IEP).

FRED PARADY, Deputy Commissioner  
Office of the Commissioner  
Department of Commerce, Community & Economic Development (DCCED)  
Juneau, Alaska

**POSITION STATEMENT:** During the hearing on HB 105, assisted in providing a PowerPoint presentation on the Interior Energy Project (IEP).

BOB SHEFCHIK, Project Manager, Interior Energy Project  
Consultant to Alaska Industrial Development and Export Authority (AIDEA)  
Department of Commerce, Community & Economic Development (DCCED)  
Fairbanks, Alaska

**POSITION STATEMENT:** Answered questions related to HB 105.

#### **ACTION NARRATIVE**

[1:32:20 PM](#)

**CO-CHAIR DAVID TALERICO** called the House Resources Standing Committee meeting to order at 1:32 p.m. Representatives Hawker, Johnson, Olson, Josephson, Tarr, Nageak, and Talerico were present at the call to order. Representative Seaton arrived as the meeting was in progress.

#### **CONFIRMATION(S) :**

## Board of Fisheries

[1:33:27 PM](#)

CO-CHAIR TALERICO announced that the first order of business is the confirmation hearing for Mr. Orville Huntington, appointee to the Board of Fisheries.

[1:33:51 PM](#)

ORVILLE HUNTINGTON, Appointee, Board of Fisheries, testified he has served on the Board of Fisheries for one term and would like to continue serving for another term. The first term was just a learning experience, he said, and now that he knows how the business of the board runs he would like to be a more interactive part of that board process. It is one of the best processes in the nation. He noted his employer, Tanana Chiefs Conference, allows him to serve on the board and he wants to help the people by serving.

[1:34:47 PM](#)

CO-CHAIR TALERICO opened public testimony.

[1:35:10 PM](#)

RICKY GEASE, Executive Director, Kenai River Sportfishing Association (KRSA), offered the association's support for the re-appointment of Mr. Huntington to the Board of Fisheries. He related that over the three years of his first term Mr. Huntington has been approachable and available to members of the public. Mr. Huntington is prepared when questions are asked of him. Mr. Huntington concentrates on the fisheries conservation aspects of issues and understands Alaska's fisheries, especially after going through the first term which is more of a learning experience for Board of Fisheries members. During meetings when the board goes into deliberations Mr. Huntington asks good probing questions. Overall, Mr. Huntington is fair and balanced in his approach to allocation issues and is a good person to reappoint to the Board of Fisheries.

[1:36:46 PM](#)

REED MORISKY stated Mr. Huntington has served on the Board of Fisheries with distinction, and has showed he has the ability and skills to make balanced decisions regarding Alaska's fisheries resources. Mr. Huntington's cultural knowledge is

unsurpassed and has been of great benefit to all Alaskans and to the board in particular when decisions are being made. Mr. Huntington has accurately, fairly, and appropriately applied his science background during the board process. Mr. Huntington holds to the highest standards of disinterested science, which is science that is free from bias or partiality, thus he is objective. Regarding the subsistence, sport, personal use, and commercial users, Mr. Huntington consistently completes the due diligence necessary to make the decisions that fairly regulate and allocate Alaska's fisheries resources. Mr. Morisky offered his complete support for Mr. Huntington's confirmation to the Board of Fisheries.

[1:37:56 PM](#)

CO-CHAIR TALERICO closed public testimony after ascertaining no one else wished to testify.

[1:38:30 PM](#)

REPRESENTATIVE HAWKER noted that the advancement of Mr. Orville Huntington's name to the joint legislative session for the purposes of confirmation is not in any way a commitment by any of the committee members to vote for or against that confirmation. He moved that the House Resources Standing Committee forward the name of Orville Huntington to the full joint session of the legislature for the purposes of considering his confirmation to the Board of Fisheries. There being no objection, Mr. Huntington's confirmation was forwarded to the joint legislative session.

The committee took an at-ease from 1:39 p.m. to 1:42 p.m.

**HB 105-AIDEA: BONDS;PROGRAMS;LOANS;LNG PROJECT**

[1:42:15 PM](#)

CO-CHAIR TALERICO announced that the final order of business is HOUSE BILL NO. 105, "An Act relating to the programs and bonds of the Alaska Industrial Development and Export Authority; related to the financing authorization through the Alaska Industrial Development and Export Authority of a liquefied natural gas production plant and natural gas energy projects and distribution systems in the state; amending and repealing bond authorizations granted to the Alaska Industrial Development and Export Authority; and providing for an effective date." [Before the committee was CSHB 105(ENE).]

1:42:25 PM

GENE THERRIAULT, Energy Policy and Outreach Director, Alaska Energy Authority (AEA), Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), turned to slide 2 to begin the PowerPoint presentation. He explained the first goal of the Interior Energy Project (IEP) is to supply natural gas to Interior Alaska at the lowest possible price to as many customers as possible and as soon as possible. Another goal is that IEP investments are supposed to complement the eventual delivery of natural gas across the state via large diameter pipeline. Investment in infrastructure is trying to be made so there will be a distribution system and a customer load in Interior Alaska when a pipeline does allow for delivery. Effort is being made to not invest in infrastructure that won't have the highest possible useful life after pipeline delivery. In addition to the Interior price issue, IEP is trying to address Interior air quality issues.

MR. THERRIAULT related that in advancing the Interior Energy Project [slide 3], a supply of natural gas from the North Slope has been pursued through a concession agreement with [MWH Global (MWH)]. However, AIDEA and AEA are now evaluating possible natural gas supply for the Interior from Cook Inlet. This began after work with MWH through the concession agreement indicated to the AIDEA/AEA board of directors that [the North Slope] price may be too high to get the conversion to gas use that is needed. Currently, AIDEA is still working on the buildout of [natural gas] distribution in the Interior because, whether the gas comes from the North Slope or another geographic area, the piping to deliver it to the consumers is going to be the same.

1:45:25 PM

MR. THERRIAULT discussed the concession agreement with MWH [slide 4], saying it provided a legal framework for a public-private partnership to come together. Northleaf, a Canadian investment firm, was involved as a financial backer and AIDEA was also going to provide some financing and would own the liquefied natural gas (LNG) facility. In the negotiations with that private partner, some federal tax considerations drove the infrastructure to be set up in a particular way. Both the state and private partners wanted to structure things that way to avoid making a payment to the Internal Revenue Service (IRS). Responding to Co-Chair Nageak, Mr. Therriault said MWH is a

worldwide firm that builds large-scale infrastructure all over the world. The firm's current chief executive officer grew up in Alaska and his father still lives in the Anchorage area, so he had an interest in trying to help with the state's infrastructure needs. Continuing on slide 4, Mr. Therriault explained the concession agreement set up conditions for the financial close. He said AIDEA was to have agreed with the project costs and the commercial terms, MWH was providing construction and operating agreements, and MWH was to negotiate for the secure LNG sales to the utilities, which it spent quite a bit of time on in 2014. Ultimately, the AIDEA/AEA board determined the price that was going to be delivered off of that expected infrastructure was not going to get the conversions and uptake of the natural gas in the community to satisfy the goals of the IEP. Thus, the concession agreement was not extended past its termination date of December 31, 2014.

1:47:50 PM

NICHOLAS SZYMONIAK, Energy Infrastructure Development Officer, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), explained that slide 5 demonstrates the process in which AIDEA evaluates these projects and the process in which the concession agreement was evaluated and eventually terminated. Going forward, AIDEA will follow this same due diligence process for any other project under the IEP, including Cook Inlet or elsewhere. If it is not a good investment, if it does not meet the goals of the IEP and the legislative intent, and if it is also not a wise investment for AIDEA, it will not pass the board's due diligence.

MR. SZYMONIAK said the [Twenty-Eighth Alaska State Legislature] passed Senate Bill 23 in 2013 and set aside financial tools for AIDEA to pursue the Interior Energy Project. He said slide 6 lays out what AIDEA has spent to date pursuing the Interior Energy Project. Of the \$57.5 million in capital appropriation received by AIDEA, \$12.4 million has been encumbered. Contracts were issued and closed out, and AIDEA is currently going through the process of determining what has been expended and what has not, so the actual spend will likely be \$500,000 to \$1 million less. That leaves \$45 million remaining of capital appropriation. In addition, AIDEA was appropriated \$125 million of sustainable energy transmission and supply development (SETS) funds with special provisions to advance the IEP. So far, those SETS funds have been used to finance the buildout of the distribution system in Interior Alaska, with two convertible

lines of credit that will turn to a term loan once gas arrives. One line of credit is for \$15 million to Fairbanks Natural Gas (FNG), LLC. The first half of that loan was spent when FNG built out 34 miles of pipeline in its existing distribution system in downtown Fairbanks. In 2015 FNG plans to build an additional 27 miles of pipeline in its service area. The other line of credit is for \$37.8 million to Interior Gas Utility (IGU) for buildout of phase 1 of its distribution system in 2015, which is approximately 72 miles of pipe in the downtown North Pole area. The pipe has already been purchased and is on site and IGU is in the process of selecting three different construction firms to put the pipe in the ground.

[1:50:50 PM](#)

REPRESENTATIVE TARR returned to slide 5 and asked what phase the [North Slope] project was in when the decision was made to not go forward.

MR. SZYMONIAK replied [the North Slope] project made it through probably about the end of phase 3. The deal was put together, but the final paperwork and final agreements were not done. It had gone as far as negotiating the construction contract and negotiating the operating agreement, and the offtake agreements with the Interior utilities were in the process of being negotiated. At that point, however, the costs had gotten so high that the risks and price associated with that did not permit it to go to phase 4, which is the actual final due diligence and the closing.

REPRESENTATIVE TARR observed it is written as loans on slide 6, but understood it is lines of credit that will turn to loans when the gas is delivered. Regarding when the line of credit becomes a loan, she surmised the loan will be for the outstanding balance, not the entire line of credit.

MR. SZYMONIAK responded correct. When gas shows up, this line of credit - up to \$52.78 million for both utilities - will turn into a term loan with a payback period of, he believed, 40 years.

[1:52:17 PM](#)

REPRESENTATIVE HAWKER asked whether the IGU distribution loan of \$37.78 million was the loan approved in February 2015.

MR. SZYMONIAK answered the line of credit was approved in two stages. A line of credit of \$8.9 million, he believed, was approved in 2014 to do initial design and purchase of pipe. In January [2015], AIDEA extended the line of credit to the full \$37.78 million.

REPRESENTATIVE HAWKER inquired whether it is fair to say that the entire [IEP] concept is a market driven project, in that the project has always been presented as succeeding or failing upon its ability to meet a specified hurdle rate for delivering gas to the burner tip for those customers in Fairbanks.

MR. SZYMONIAK agreed that is a fair statement.

REPRESENTATIVE HAWKER noted the state is investing substantial funds in building out the local distribution infrastructure. He understood, however, that it is not known for certain as to whether a project is had which meets that hurdle rate.

MR. SZYMONIAK replied [AIDEA] does not know if it has a project to supply gas in the near to mid-term. If that gas is supplied, AIDEA has done the financial analysis to ensure that the utility can charge rates that pay back the loan AIDEA has made.

REPRESENTATIVE HAWKER said his question was not answered. He asked whether AIDEA is certain it has a project that can deliver that gas at that hurdle rate of \$15 at the burner tip. He further asked whether buildout is occurring before it is really known that there is a project.

MR. SZYMONIAK agreed AIDEA does not yet have a project that is certain in an absolute term. However, he continued, there are multiple proposals out of Cook Inlet, including from Hilcorp, from WestPac, and from Cook Inlet Energy, to provide natural gas to the Interior. He offered his belief that while the gas isn't there and the infrastructure isn't built out, there is a fairly high degree of confidence that natural gas or LNG will be available for this system.

[1:55:30 PM](#)

REPRESENTATIVE HAWKER understood there is a great deal of public concern with the damage to real property that is being done in this initial phase of pipeline buildout in North Pole.

MR. THERRIAULT responded he talked to Representative Wilson this morning about the concern she is hearing from her constituents.

He said he was also in touch last week with IGU personnel in Fairbanks asking them to get in touch with the governor's office in Fairbanks to be prepared to respond. He understood IGU has been encouraged by Representative Wilson to have its contractor double its efforts when doing advance work, such as going door-to-door and leaving flyers to let people know that right-of-way clearing for pipe placement will be happening this summer. Last fall surveyors were out during the day when people might not be home and it cannot be told from the flagging what is intended. He said he thinks what is happening in North Pole is that people have had their homes for a long time and haven't paid attention to where their property exactly ends and where the right-of-ways are located. After providing examples of this happening to himself and others, he said he thinks Representative Wilson is asking that the contractors doing the right-of-way clearing be as sensitive as they can. Contractors actually crossing over a right-of-way line could be subject to paying damages to the property owner.

[1:58:12 PM](#)

CO-CHAIR NAGEAK inquired whether the issuing of loans means the distribution system in Fairbanks or North Pole is on the verge of being built.

MR. THERRIAULT answered the loans are for distribution buildout in the Fairbanks area where FNG currently has a service territory and then in the outlying area starting in the city of North Pole where IGU, a separate utility, has a service territory granted to it by the Regulatory Commission of Alaska (RCA). It is wanted for those two systems to eventually be as fully integrated as possible to get economies of scale, but starting as two separate distribution systems.

CO-CHAIR NAGEAK asked whether negotiations have started between AIDEA and possible contractors.

MR. THERRIAULT replied the contractors doing the placement for the pipe are contractors of IGU and FNG. But, since the state is providing money for the work to be done, [AIDEA] certainly tries to keep abreast of the actual work going on in the ground.

[1:59:34 PM](#)

CO-CHAIR TALERICO understood North Pole is one of the worst areas of non-attainment for air quality in the Fairbanks North Star Borough.

MR. THERRIAULT responded correct, explaining it is colder in North Pole and during inversions the colder temperatures trap everything closer to the ground. Additionally, people in that area are really struggling with the cost of energy. A number of them have gone to wood heat outdoor boilers and some stoke with coal, resulting in some bad particulate matter conditions.

2:00:20 PM

REPRESENTATIVE OLSON inquired how the financing is being done. He offered his belief that when ENSTAR Natural Gas Company (ENSTAR) expanded in the Anchorage and Kenai Peninsula areas the expansions were done in all cases by a local improvement district where the homeowner or business owner shared a portion of the cost, which was paid through their energy bills over a number of years.

MR. SZYMONIAK answered that, at this point, each stage of the buildout might be financed differently. This initial stage for FNG and IGU is financed through direct loans to the utility, so the cost of building out to customers in the FNG buildout and phase 1 of the IGU buildout will be repaid through their rates. There will be no fee to a homeowner beyond the connection line to the system, but the pipe going down a homeowner's street will be paid through the homeowner's cost of gas.

REPRESENTATIVE OLSON said he didn't think the Anchorage or Kenai Peninsula expansions were price driven like the [Interior Energy Project] appears to be. He asked what happens if people are not agreeable to the IEP price.

MR. SZYMONIAK confirmed it is not the same system as the local improvement districts (LIDs). If the conversions to natural gas don't happen the utilities will still be mandated to adjust their prices to recover the rates. If the utilities are unable to sign up enough customers to pay the rates, AIDEA is at risk of non-repayment.

REPRESENTATIVE OLSON asked what the response has been from the communities.

MR. THERRIAULT replied AIDEA has done a number of surveys and focus groups working in conjunction with IGU to see what the level of interest is. A professional conversion report was done and AIDEA ran the numbers on what this enterprise would ultimately turn out to be based upon about 75 percent of the

individual residents hooking up, given not everyone is likely to sign up. The indication is that if the gas can be delivered within AIDEA's range of around \$15, customers will sign up. Also, AIDEA has provided information on how gas delivered at a certain price will, compared to fuel oil, save customers a certain amount on a yearly basis. However, there would be an internal conversion cost for the appliances in a home that could be anywhere from \$2,500 to \$11,000. Therefore AIDEA provided information to show how quickly that cost would be recouped and how payment could be stretched out over time. Even with that, the response from the public has been pretty positive.

[2:04:01 PM](#)

REPRESENTATIVE SEATON expressed his concern that AIDEA will be left "holding the bag." In the areas that he is familiar with, rather than just expressions of interest, people committed to putting in a system via a vote and then assessments were made [if the vote approved the project]. He inquired whether AIDEA considered having local improvement districts that would vote.

MR. THERRIAULT responded the financing tools that were passed several years ago did not require that. He believed, however, that for outlying areas where the economics are even more challenged it is likely that forming local improvement districts will be a requirement if people want the pipe extended to them. The initial financing is for the core of the city of Fairbanks, the North Pole area, and immediately outside the city limits where there is the greatest density. Under requirements of the financing that was provided, [FNG and IGU] must get AIDEA's approval before starting preliminary work on phase 2 so AIDEA can see what is the price, the conversion, and the number of customers that are coming forward and signing up. The air quality issue is something the borough cannot escape and must deal with, and AIDEA believes that providing this alternative source of fuel is ultimately the long-term solution.

[2:07:04 PM](#)

REPRESENTATIVE OLSON asked what has been contributed thus far by Fairbanks, North Pole, and the borough.

MR. THERRIAULT answered it has just been in-kind support of the formation of IGU at this point, and [the IGU] board of directors is volunteers. The Fairbanks North Star Borough supplied a line of credit originally to the IGU, which IGU has not used at this point. Also, AIDEA is working with the local governments on

conversion mechanisms. The borough has indicated it would finance the stretching of customer payments on the customer's utility bills for the conversion of individual homes. He said AIDEA believes there would be a very low default rate on that, but lenders bringing money to that game might want those loans to be backstopped and the borough mayor has indicated that that is likely to be a task of local governments.

REPRESENTATIVE OLSON concluded the only entity having money in the game at this point is the state through AIDEA.

MR. THERRIAULT answered that that is substantially true.

[2:08:29 PM](#)

REPRESENTATIVE HAWKER referred to the risk assessment of IGU's strengths and weaknesses that was included in the memorandum to AIDEA's board members for the IGU distribution loan. The first identified threat was long-term gas supply availability, he observed, and the second threat was rate-making oversight. He asked why rate-making oversight is a threat to this project and something to be considered when making the loan. He said he unaware of any other public utility in the state, at least in a major metropolitan area, that isn't subjected to rate-making oversight.

MR. SZYMONIAK replied the IGU has elected not be rate regulated through the Regulatory Commission of Alaska (RCA), so the rates will be set by the IGU board. He believed the rates may be approved by the borough, but said they will at least be set by the municipal entity at the Fairbanks North Star Borough board level or the IGU board level and not overseen or not approved by the RCA. That was simply to put in there that moving forward, AIDEA, as the lender on the distribution system, needs to ensure the mechanisms are in place that rates are set by the IGU at a level capable of paying back AIDEA under the terms of the loan.

REPRESENTATIVE HAWKER posed a scenario in which there are no local improvement districts, no community buy-in that assures the entire community shall become invested in this project, and on a certain street 40 people were expected to sign up, but only one does. He inquired whether that one person will be expected to pay the cost for all 40, given the understanding that IGU will be charging enough to pay back the state's loans.

MR. SZYMONIAK responded the rates will be set by the entire service area, not street by street. Under the impending AIDEA

acquisition of FNG and the extent that [IGU and FNG] are integrated, that cost to a street might be shared by the entire community. But, yes, it is correct that AIDEA expects the rates will be set at a level to pay back the AIDEA loan. The AIDEA loan was made in a way such that the payments are low in the early years to allow demand to grow before the payments kick in. In making that loan, AIDEA chose to take the risk based on its work and analysis of the expected conversion rates. The risk of not enough conversions was an educated risk that AIDEA made in order to advance the Interior Energy Project.

2:12:16 PM

REPRESENTATIVE HAWKER said the aforementioned answer has now caused him greater concern in that an individual person could end up paying for the entire project, not just the person's own street, if there are not enough conversions. He said he would be really uncomfortable if he lived in North Pole right now and had this coming at him. The whole point of rate regulation is to protect the consumer from excessive or inappropriate business decisions made on behalf of a dominant public utility. He asked whether AIDEA thinks that the consumers would benefit by rate-making authority.

MR. SZYMONIAK answered he is speculating given AIDEA hasn't seen the actual financial model moving forward with the conversions, but he suspects not being rate regulated would be an advantage in the aforementioned scenario. If the conversions aren't there, AIDEA is in a position to be flexible when loan repayment is expected in three to six years. Whereas, the rate-regulator route would be less flexible and more formulaic, so those rates would more likely be borne by the customer.

REPRESENTATIVE HAWKER said that would seem to work as long as the state was willing to provide that subsidy and did not expect to be repaid in accordance with the terms that are being presented to the committee as part of AIDEA's transaction.

MR. SZYMONIAK replied such a scenario would be a handful of years out and based on a handful of things happening by then. He reiterated his expectation that AIDEA would be flexible with the repayment of its terms in order to benefit the communities of North Pole and Fairbanks as is the intent of this appropriation to begin with.

MR. THERRIAULT added that IGU was advised that having that extra flexibility would be beneficial to it initially and he thinks

this advice was given by some RCA commissioners. That extra flexibility is probably needed in those initial years until overall volume and number of customers gets up high.

2:15:16 PM

REPRESENTATIVE TARR inquired whether opportunities such as the Alaska Housing Finance Corporation's (AHFC) Home Energy Rebate Program would be available to help accelerate the rate at which conversion might take place.

MR. THERRIAULT responded the Local Conversion Working Group - a combination of local government, individuals from FNG and IGU, mechanical contractors in Fairbanks, local lenders in Fairbanks, [and AIDEA] - have looked at the suite of things currently available or that could be available and the AHFC Home Energy Rebate Program can assist individuals in converting their homes. Converting fuel oil appliances to more efficient natural gas appliances qualifies as an energy efficiency step, so would lend itself to individual homeowners who convert. Also, there is on-bill financing, which is an agreement between the customer and the utility to help finance those conversion costs spread over time. A separate piece of legislation for business conversions, the Property Assessed Clean Energy (PACE) financing, would help businesses perform energy efficiency acts on their structures and converting to natural gas heat would qualify. The state can help with some of the mechanisms, and the PACE financing in particular is asking the legislature to create the mechanism for local governments to use and is a zero fiscal note for the state. The AHFC rebate, if that is going to be a portion, is reliant on the monies that have been appropriated to AHFC.

2:17:53 PM

REPRESENTATIVE HAWKER inquired whether Mr. Therriault had earlier said the RCA recommended against rate regulation and asked whether there is a docket on this recommendation.

MR. THERRIAULT answered he had a personal conversation with one or two of the RCA commissioners about whether it is better for a municipal entity to be rate regulated or not rate regulated. The advice he received was that, initially, the utility would probably need some extra flexibility and then later it could consider whether to be fully rate regulated and come under the auspice of the RCA.

REPRESENTATIVE HAWKER asked whether the aforementioned answer is to be taken as authoritative counsel on behalf of the RCA.

MR. THERRIAULT replied no.

REPRESENTATIVE HAWKER regarding Representative Tarr's question about what it will take to make this work, noted AIDEA's response was all about receiving more government largess to make it work. He asked whether AIDEA has done any financial analysis to the point that it can credibly state what the natural rate of conversion will be at varying oil prices, given this whole thing has been driven by retail heating fuel prices. For example, what the conversion level would be at any given oil price and what the additional government subsidy is going to have to be to incentivize the necessary conversions to get the buildout ratio needed to make this project work at any given price of oil.

MR. THERRIAULT responded the conversion report he referred to earlier will answer that question. Consumers were asked questions about whether they would convert if their savings were "X" in various scenarios: the difference between the existing oil price and the natural gas price and as that difference gets squeezed either because fuel oil comes down or the natural gas price goes up.

REPRESENTATIVE HAWKER inquired at what price of retail heating fuel the conversion ratio becomes acceptable to making AIDEA's project work without additional subsidy for those conversions.

MR. THERRIAULT answered the survey was done when fuel oil was at \$4 [per gallon], which equates to an oil price of \$100 [per barrel]. The survey indicated that within the range of \$15-\$16 a conversion rate of 75 percent was a realistic number to expect. Consumers indicated they didn't think today's low price of oil would be the prevailing price going forward. The survey showed that at \$17-\$18 the conversion rate would be negatively impacted. He said he will provide the committee with a copy of the sophisticated chart included within the report.

[2:22:28 PM](#)

REPRESENTATIVE OLSON recalled that Mr. Therriault served in the Alaska State Legislature when oil was at about \$9 per barrel.

MR. THERRIAULT replied yes, he was co-chair of the House Finance Committee.

2:22:52 PM

FRED PARADY, Deputy Commissioner, Office of the Commissioner, Department of Commerce, Community & Economic Development, resumed the presentation, turning to slide 7. He said the question before the committee is that AIDEA is exploring the [LNG] alternatives in Cook Inlet. The premise for this exploration is simply that Alaska's natural gas and LNG markets have changed in the last two years and new information is now available that influences the best course of action going forward. In 2013 Cook Inlet utilities were actively developing import plans amidst gas supply fears. The existing proposals for the North Slope LNG option indicated lower capital costs than what proved to be true, and AIDEA has not selected a North Slope developer or project design. In 2015 the concession agreement work that was done revealed a high cost of the North Slope LNG project. The Cook Inlet "renaissance," which is largely a credit to the tax work that has been done by the legislature, provides an opportunity for lower cost natural gas. Additionally, the downturn in global LNG markets may reduce the price for conventional LNG equipment.

MR. PARADY compared the North Slope and Cook Inlet for projects [slide 8]. In terms of gas supply, Cook Inlet is uncertain, but the indications are positive. The North Slope has abundant supply at low cost and existing contracts in place, but the cost of getting that gas to market is substantial. In terms of LNG plant costs, constructing and operating an LNG plant is cheaper "off the shelf" in Southcentral Alaska than in the North Slope because of the expense to design and construct for North Slope conditions. In regard to trucking and rail options, there is lower trucking cost, larger trailer options, and a rail option coming from the south as opposed to coming down the Dalton Highway. Storage and distribution is essentially equivalent between the Cook Inlet and the North Slope, there is no significant change in design and costs. The conclusion is that, if affordable natural gas is available, a Cook Inlet project is favorable.

2:25:20 PM

REPRESENTATIVE HAWKER recalled Mr. Szymoniak earlier stating that AIDEA is entertaining multiple proposals for natural gas out of Cook Inlet. He asked how that is possible when AIDEA's request for proposals (RFP) for gas and supply is not yet on the street. He further asked whether AIDEA is negotiating with people and making commitments without having released an RFP.

MR. SZYMONIAK responded AIDEA is not negotiating with people. Re-stating himself, he said he intended to say that multiple Cook Inlet providers are proposing to provide LNG to Fairbanks. Providers can propose to provide LNG to Fairbanks and North Pole without AIDEA's involvement and they have. They've had meetings and presentations in the community and, he believed, they've also had presentations in Juneau. Thus, interest was shown prior to AIDEA issuing its RFP for liquefaction and gas supply.

REPRESENTATIVE HAWKER maintained he is now getting an entirely different answer to his previous question in that Mr. Szymoniak previously assured him that AIDEA was entertaining multiple proposals out of Cook Inlet. He said he is troubled by this.

[2:27:00 PM](#)

REPRESENTATIVE HAWKER addressed the statement on slide 8 about LNG plant costs being cheaper "off the shelf." He offered his understanding that the current burner tip cost of gas in Cook Inlet through ENSTAR is about \$10 at the burner tip, about \$7.75 for the gas and about another \$2 or so in distribution. He inquired whether that is a fair statement for what it is costing burner tip in Anchorage at this time.

MR. SZYMONIAK answered yes, AIDEA's calculations show that when all distribution and variable and fixed costs are included it is about \$10 to the burner tip for a residential customer on the ENSTAR system outside of Homer.

REPRESENTATIVE HAWKER understood the stipulated hurdle rate in Fairbanks for consumer delivery of gas is \$15 at burner tip.

MR. SZYMONIAK replied correct.

REPRESENTATIVE HAWKER noted [the burner tip cost] being paid in Anchorage is \$10, and \$15 is needed in Fairbanks. He asked whether AIDEA thinks it is economically achievable to meet that objective in the Fairbanks market place.

MR. SZYMONIAK responded AIDEA believes it is possible, although not certain, based on AIDEA's analysis and initial discussions with providers. That cost of gas to ENSTAR's customers is based on a series of historic prices, he pointed out, not newly negotiated contracts. Additionally, the gas service required by ENSTAR will be different than the gas service required by the Interior Energy Project. So, AIDEA does not know for certain

whether it will get there, but early indications are that an opportunity is there and it is potentially possible and AIDEA is exploring that through the RFP process.

REPRESENTATIVE HAWKER inquired what AIDEA thinks will be the potential consequences when the Hilcorp price cap is removed at the time the anti-trust agreement expires.

MR. SZYMONIAK answered AIDEA doesn't know what that price will be and said he doesn't think anyone knows other than the utilities and the natural gas providers in Cook Inlet that are currently in the middle of confidential negotiations and advancing gas supply agreements. He added AIDEA is looking into that process and trying to achieve the lowest gas price possible for Interior customers and to determine whether that gas price is sufficient to meet the goals of the IEP.

[2:30:05 PM](#)

REPRESENTATIVE OLSON requested that a copy of AIDEA's analysis of Cook Inlet gas be forwarded to the committee.

MR. SZYMONIAK replied some upcoming slides will touch on that and the analysis can be talked about at that point.

REPRESENTATIVE OLSON clarified he is asking for the whole analysis, not a one-page summary.

MR. SZYMONIAK responded that that's where things are at with the analysis - AIDEA hasn't written anything up. There have been extensive conversations, but summary notes from meetings could be provided to the extent that they aren't confidential.

REPRESENTATIVE OLSON remarked he is now confused because the analysis was mentioned as if it was a real document. He said his definition of an analysis is something that is performed for pay by a person or an organization to provide information to another group.

MR. SZYMONIAK answered there is not a formal document that AIDEA has put together; AIDEA has had a series of discussions with the Department of Natural Resources (DNR) which had formal analysis of gas reserves left in Cook Inlet. Most of AIDEA's meetings were done confidentially with Cook Inlet gas providers, and AIDEA's notes on those meetings constitute an analysis, but which AIDEA probably cannot share. He allowed there is no report or formal analysis that AIDEA can provide.

2:31:40 PM

REPRESENTATIVE HAWKER stated he has the same concern as Representative Olson. He maintained it was very clearly stated that there was a study, documents and analysis, that were available and now it is being found out that there isn't. He offered his understanding that what is being heard is that AIDEA is stepping into the marketplace and negotiating the procurement of gas in the Cook Inlet and negotiating gas at a cheaper price for the IEP on behalf of the utility, a private company, which is supposed to be operating in Fairbanks. He inquired whether he is correct in his understanding.

MR. PARADY, noting he is the lead on the gas supply team, replied that the role of the state team is threefold: assess the viability of achieving the IEP goals with Cook Inlet natural gas, initiate the commercial process through a formal and competitive solicitation, and conduct preliminary negotiations with Cook Inlet producers on behalf of the Interior utilities. Through these roles, [the team] hopes to streamline the process and support the goals of Senate Bill 23, which is the provision of affordable energy into Fairbanks. Saying today's critical scrutiny is appreciated, he requested the view be lifted to a "30,000 foot view" of the original legislation, which is to use the state's tools to attempt to deliver gas into the Fairbanks market at an affordable price. He made clear, however, that neither the State of Alaska, nor AIDEA, will purchase or take custody of natural gas on behalf of any utility.

MR. THERRIAULT drew attention to the letters of support in the committee packet from Furie Operating Alaska, LLC, and Cook Inlet Energy, LLC, two potential suppliers in Cook Inlet interested in the possibility of supplying the Interior market. He said they are aware of the price target, what AIDEA believes the delivered price into the community needs to be, for the demand to actually present itself. They obviously believe there is a chance that they could potentially deliver natural gas into the beginning of that delivery stream that could satisfy that.

2:34:39 PM

REPRESENTATIVE HAWKER addressed Mr. Parady's response, remarking that Mr. Parady was definitely ready to recite that response. Calling attention to Administrative Order (AO) 272, dated January 16, 2015, he noted it directs the commissioner of the Department of Commerce, Community & Economic Development to take

the lead in facilitating collaboration and coordination among government and other entities involved in the Interior Energy Project. He said he doesn't see the commissioner involved much in the IEP. He further noted the AO also directs the Department of Natural Resources to work with AIDEA on assessing potential natural gas supplies for Interior Alaska. Representative Hawker maintained that [Mr. Parady's] statement did not include an interest in assessing potential gas supplies, but rather participating in that procurement. He argued the AO was clear that it was to assess and identify potential natural gas supplies for Interior Alaska.

MR. PARADY apologized for any misunderstanding he may have left on Representative Hawker's part and stated, "Of course Administrative Order 272 directed the commissioner of commerce to coordinate at the highest level of the administration to support both consumer energy statewide and the Interior Energy Project." Continuing, he said that includes the assessment of Cook Inlet gas supply, which has a working team comprised of himself, Mr. Szymoniak, and Paul Decker and Ed King of DNR; the team has been working with a weekly phone call to continue that assessment process of natural gas. He confirmed he is prepared for the committee's questions, saying he would be ill advised not to be. He noted that the first bullet point he offered to the committee was to assess the viability of achieving the goals of IEP with Cook Inlet natural gas and said the foundation of that analysis rests on an assessment of those resources and that work is ongoing.

[2:36:46 PM](#)

REPRESENTATIVE HAWKER said he is listening between the lines of Mr. Parady's answer. He asked whether "third floor personnel" are actively involved in pursuing these gas sources, meaning people who are not part of AIDEA or the Department of Commerce, Community & Economic Development.

MR. PARADY replied a representative of the governor's office participates in the team meetings, but the meetings are led by himself. The active geological assessment work is being done by the Department of Natural Resources.

REPRESENTATIVE HAWKER inquired whether anyone in [the governor's office] is actively procuring LNG facilities or negotiating leases or the potential ability to identify resource in the ground that could be utilized for this project.

MR. PARADY responded no and offered his belief that that work was curtailed a month ago.

REPRESENTATIVE HAWKER respectfully suggested he is receiving different information.

MR. PARADY thanked Representative Hawker for that information and said he will continue to pursue it.

2:38:00 PM

MR. SZYMONIAK resumed the presentation, explaining slides 9-12 are visual representations of the North Slope LNG project versus a Cook Inlet option that AIDEA would be able to pursue with the passage of HB 105. Addressing the North Slope value chain shown on slide 9, he said there are two existing contracts for North Slope natural gas supply, both signed by local Interior utilities and assigned to the IEP. The liquefaction plant that was being considered for LNG production was under the concession agreement with MWH. Trucking off the North Slope was anticipated to happen by private contractors; AIDEA did explore potentially financing some trailers, but not the trucking or the trucking operation itself. In regard to LNG storage and regasification, AIDEA made loans to FNG and IGU for buildout of a distribution system. Turning to the value chain depicted on slide 10 for LNG sourced out of Cook Inlet, he said the big difference is in gas supply - AIDEA would be working with utilities to pursue gas supply agreements with Cook Inlet producers. In the end it would be the utilities themselves that would be signing those agreements. The LNG production would be with a third party developer, not AIDEA buying, designing, or operating a plant. The third party developer would work with AIDEA to partner on financing or to partner as part of the larger IEP planning. Presently the base case for transportation is trucking, but using the Alaska Railroad is an option. Trucking of the LNG would be done by the private sector and AIDEA would be open to purchasing or financing the LNG trailers or the ISO containers if on the railroad. If propane is made available through legislation or through a proposal, AIDEA could invest in the propane transportation. If a pipeline is made available or a pipeline proposal moves forward, AIDEA could invest in the pipeline transportation, but at this point it is LNG trucking. Storage and regasification for the Cook Inlet alternative would remain the same [as for the North Slope].

2:40:38 PM

REPRESENTATIVE OLSON asked whether Golden Valley Electric Association (GVEA) will have a conflict with its restart of the Healy coal project.

MR. THERRIAULT answered GVEA is going ahead with restart of the Healy coal project. However, within its system, GVEA needs the ability to firm up the Eva Creek wind project, but GVEA cannot do that with a coal plant because coal cannot be ramped up and down that quickly. So, GVEA has an LM6000 generator in North Pole. Part of the reason why the IGU distribution begins at North Pole is because IGU would partner with GVEA for LNG to be stored there and made available directly to GVEA for that LM6000. Conversion of that plant has been factored by GVEA. When it was initially built the thought was that a pipeline would be delivering gas into the community, so it was sourced and built with the idea of converting it over to natural gas. That particular generator still is a load base, it has a demand for fuel that can be switched over to LNG.

[2:41:52 PM](#)

REPRESENTATIVE HAWKER said he has areas of concern [regarding the Cook Inlet LNG alternative]. The chart on slide 10 shows a third party LNG developer in the LNG production part of this process, yet on February 12, 2015, AIDEA provided an extensive presentation to the Legislative Budget and Audit Committee regarding its potential purchase of the Pentex Alaska Natural Gas Company, LLC (Pentex), which includes an LNG facility that the state would own and operate. He inquired whether he is missing something.

MR. SZYMONIAK replied the state would also own an agreement to sell that asset to Harvest Alaska, LLC, a subsidiary of Hilcorp, to own and operate the existing LNG plant owned by Pentex.

REPRESENTATIVE HAWKER understood the State of Alaska, through its attorney general, has opposed that sale. He asked what AIDEA's intention is to do with that \$50 million plant.

MR. PARADY said Mr. Ted Leonard, AIDEA Executive Director Emeritus, is on line and might be best suited to answer that question. [Mr. Leonard was unavailable to answer.]

MR. THERRIAULT explained the existing one billion cubic foot plant is a proposed part of the Pentex purchase, but there is a contractual obligation to sell that to Hilcorp and AIDEA would be contractually obligated to follow through on that sale.

2:44:23 PM

REPRESENTATIVE HAWKER presumed that if the attorney general is overridden and the sale goes through, AIDEA has no intention of withdrawing that sales commitment. He understood the sale of that particular LNG plant comes with a 10 year absolute take or pay commitment on behalf of FNG to purchase gas for its entire existing requirement today at \$15 per thousand cubic feet (MCF) at city gate, which is not delivery to the burner tip and which doesn't meet AIDEA's hurdle rate. He inquired how FNG's customers in Fairbanks can be committed to \$15 city gate while AIDEA is telling the committee today that there is no need for rate regulation to protect consumers.

MR. PARADY answered the \$15 on the first billion cubic feet (BCF) makes it tough to achieve a lower cost over the ramped-up volume. He said Representative Hawker is correct in identifying that as an issue, but added that those issues remain to be worked out as work continues forward on this deal.

REPRESENTATIVE HAWKER said he is concerned about creating a situation in Fairbanks of two classes of consumers: those who are a discriminated class that got into the deal early and those who benefit later because the state has put a great deal more money into the project.

2:46:30 PM

REPRESENTATIVE HAWKER addressed slide 10, recalling an earlier statement that AIDEA would be helping and facilitating agreements that do not involve AIDEA taking ownership of gas. He said he has a community that sits on the Cook Inlet and he has a gas utility that negotiates by itself with the same providers of gas that AIDEA would be going to and interjecting the state in a competing role with his utility. He asked whether it is fair to have the state competing on behalf of the Fairbanks utilities when his utilities are being disadvantaged by that activity.

MR. PARADY offered his perspective, saying that the supply of gas into the Fairbanks market is relatively small compared to the Anchorage market. Additionally, the increase in gas supply availability in the Cook Inlet in recent years has created the potential that there is room for both markets. Finally, there is the combining of FNG and LNG utilities to create a sufficient and reasonable economy of scale. From the "30,000 foot view,"

Senate Bill 23 offers a package of \$332 million in state support, of which 20 percent is grants and 80 percent is debt to be borne by those consumers, albeit in the form of state patient capital that isn't required to meet a 12.5 percent hurdle rate for a rate of return. It is trying to deploy those assets in a way that allows becoming a player in that market without being destructive to the core market of Anchorage; these are discussions that he has had personally with ENSTAR's president and which he believes can be achieved as this process is worked through. He said Representative Hawker's concern is well taken and something to be worked on as work continues forward.

REPRESENTATIVE HAWKER agreed this is what negotiations are all about, but said he would like to have answers that are far more clear and certain before committing the state's resources on a long-term basis to a project that is going to be requiring gas from the Cook Inlet for 30 years when his own utilities cannot get more than a three-year contract today.

[2:49:21 PM](#)

CO-CHAIR NAGEAK recalled testimony several weeks ago from Doyon, Limited, and Ahtna, Incorporated, that there is the possibility of finding natural gas closer to Fairbanks, in which case all of this may be moot because it would be a lot cheaper going from Nenana to Fairbanks. So much is happening with energy exploration that AIDEA may come back saying it has found a cheaper way. He asked whether AIDEA has thought about that.

MR. THERRIAULT responded AIDEA has certainly kept abreast of the developments of Doyon in the Nenana region. At this point Doyon has not found a commercial supply of gas, but that could be a possibility in another decade or so if a big line doesn't happen. It would still give AIDEA the opportunity, though, to get the infrastructure for distribution built out and source initial gas perhaps out of Cook Inlet or off the North Slope. Something to be kept in mind is that the name Interior Energy Project denotes a geographic area that is larger than just the Fairbanks North Star Borough. Although it is the second largest metropolitan area it is still a relatively small demand, but it would anchor whatever infrastructure was developed to get that product flowing for use in Glennallen, Tok, Mentasta, Northway, and other communities in that larger geographic area; that bulk demand would bring down that overall per-unit price.

[2:52:34 PM](#)

MR. SZYMONIAK continued the presentation, moving to slides 11-12 and comparing a North Slope project map with a Cook Inlet project map. For the North Slope project (slide 11) the natural gas supply would be sourced on the North Slope, liquefied on the North Slope, and trucked to Interior Alaska. For the Cook Inlet (slide 12) the natural gas supply would be sourced out of Cook Inlet, liquefied in Southcentral, and trucked or railed to the Interior. The two are functionally the same project with a different source of gas, they have the same financing tools by AIDEA, and they have the same approach by AIDEA to find private developers to do the operation and advancing of the project with AIDEA financing and participation.

MR. SZYMONIAK said slide 13 demonstrates why AIDEA is optimistic about a Cook Inlet gas supply opportunity. It's well documented that a Cook Inlet gas supply at the volumes and price needed is not certain, but AIDEA believes there is an opportunity there and is going through the process of using commercial and market mechanisms to determine what that price and availability is. If it is at a price and availability that achieves the goals of the Interior Energy Project, AIDEA hopes to be able to pursue it with the passage of HB 105. The chart on the left side of slide 13 was produced by the Department of Natural Resources. The bar on the left of the chart depicts the remaining 1P and 2P Cook Inlet gas reserves, so does not include undiscovered resources or fields in development like those by Furie and the BlueCrest/WestPac Cosmopolitan Project. The middle bar on the chart shows the last 10 years of LNG exports and the right bar shows the next 10 years of Interior gas [demand]. It can be seen from the bars that while the IEP would be additional use of the Cook Inlet reserves, the order of magnitude of that use is fairly small compared to the reserves and non-Southcentral uses.

[2:54:45 PM](#)

REPRESENTATIVE HAWKER asked why the situation was so different two years ago when the importing of LNG into Cook Inlet was being looked at.

MR. SZYMONIAK answered there are probably multiple reasons, the primary one being a paradigm shift in Cook Inlet from larger producers to smaller producers and as those producers moved out the production from their fields began to drop. Production in Cook Inlet may also have been dropped because of the impending end of the existing LNG export license. But, the reserves were there and the fears of having to import LNG didn't materialize.

REPRESENTATIVE HAWKER argued there are no clear and empirical answers as to why two short years ago his town was having brownout drills for the lack of gas. Yet, the entire energy of Fairbanks will be bet for the next 30 years on something that hasn't been studied and a determination made as to what changed over the last two years and whether there could be a change back just as easily over the next two years.

MR. PARADY replied he would characterize some elements of Representative Hawker's descriptions somewhat differently. There is the consequence of tax incentives that have produced additional gas out of the Cook Inlet; it didn't occur in a magic 24 months, it has occurred over a period of time as those have come to fruition and projects continue to come on line from the smaller producers that have been attracted to the inlet. While Representative Hawker was present in the Senate Bill 23 debate and he was not, he said his understanding of the IEP is that it is a bridge to the future when the big pipeline is put in place. That is why the IEP is a trucking-based project, not a pipeline-based project, although those questions continue to be evaluated in the context of Senator Micciche's inquiries. The point of slide 13 is to say that the demand to meet the Fairbanks piece of the market over a period of a decade is a relatively small draw on that trillion cubic feet of reserve.

REPRESENTATIVE HAWKER maintained it is the significant gas cushion provided by the Cook Inlet Natural Gas Storage Alaska (CINGSA) facility that is keeping his community lit during the coldest months of the winter, not necessarily the tax structure. At least one of the significant tax benefits being referred to will expire next year, the rest expire in 2021, and there is a great deal of conversation in this building about not extending those credits. He inquired whether Mr. Parady can assure him that those credits will be extended and that the robust renaissance in the Cook Inlet will be continued.

MR. PARADY responded "of course not and your point is well taken" and that is why the evaluation of gas supply alternatives continues to include North Slope based options. A complex set of interactions must be threaded through to meet the goals of Senate Bill 23, which were set for AIDEA by this body.

[2:58:56 PM](#)

CO-CHAIR NAGEAK noted barges go back and forth in the summer, especially on the Yukon River and along the coast. He asked

whether any studies have looked at barging LNG on the Yukon River from Fairbanks.

MR. THERRIAULT answered that language in a piece of pipeline legislation passed last year charged AEA with looking at the economics of delivering more cost effective energy statewide. This indicated planning ahead for how to spread access to natural gas molecules off of a big trans-Alaska pipeline to a larger geographic area, including delivery via freshwater system on barges. Barging LNG is a little more difficult than fuel oil because LNG is a cryogenic fuel, it is at a temperature of minus 262 degrees Fahrenheit. As instructed, AEA is putting together a body of work to be delivered to the legislature, he thinks, in January 2017.

[3:01:17 PM](#)

MR. SZYMONIAK resumed the presentation, drawing attention to the chart on the right side of slide 13. He said the left bar on the chart depicts the 2014 demand of Cook Inlet gas in billion cubic feet per year, the middle bar depicts the potential demand if the Agrium plant is restarted, and the right bar depicts the Interior demand at full buildout.

MR. PARADY moved to slide 14, explaining HB 105 would give AIDEA the flexibility to use the Senate Bill 23 financing tools with a non-North Slope liquefaction location. He said HB 105 does not increase funding for the IEP, does not increase AIDEA's investment authority beyond giving AIDEA geographic flexibility, does not alter AIDEA's policy of supporting the private sector, and does not change the intent or goals of the IEP.

[3:02:06 PM](#)

REPRESENTATIVE HAWKER inquired whether HB 105, as written, will give AIDEA sufficient resources to conduct itself through the full buildout of the Interior Energy Project, not just the 20 percent being started with today, or will AIDEA have to come back to the well for the other 80 percent.

MR. PARADY replied there is no coming back to the well because there is no well. The plain fact is that AIDEA must use the tools that were delivered to it for this purpose to achieve this purpose, and that is what AIDEA is working diligently to find the answer to.

REPRESENTATIVE HAWKER understood Mr. Parady to be saying that if HB 105 passes as written, AIDEA will be able to accomplish the entire buildout of the IEP - not just the 20 percent for FNG, but the entire 100 percent buildout - without coming back to the state for additional subsidy.

MR. PARADY deferred to the project manager.

BOB SHEFCHIK, Consultant/Project Manager, Interior Energy Project, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), replied Senate Bill 23 funds were never sufficient to do an entire buildout of the complete community and provide a liquefaction chain that would meet the entire community's needs. It likely will provide sufficient funding to build the liquefaction chain, finish the buildout on the core of town, and build the core out in the North Pole/Badger Road area. Financing for phases 4, 5, and 6 buildout has been put off until there is cash flow for the entire system to develop a financing mechanism for that, which could involve revenue bonds, or local participation as discussed earlier, or bonding through AIDEA. Despite Representative Hawker's offer of it when "we" met at Legislative Budget and Audit Committee, there is not an expectation the state will be in a position to do more than has already been done through Senate Bill 23.

[3:05:04 PM](#)

REPRESENTATIVE HAWKER recalled that when Senate Bill 23 was being discussed the representation to the legislature was that this was all that Fairbanks needed to accomplish the entire Interior Energy Project goals. He said that seems to have changed substantially now that a North Slope project isn't being looked at.

MR. SHEFCHIK responded that the representations were made by the Parnell Administration. He said his recollection is that it was described as being a good start and would get the community kick-started to low cost energy. There was not an expectation that the loan and appropriation package was sufficient to put together a North Slope plant, a North Slope supply chain, and a complete buildout of the distribution system even at the time.

REPRESENTATIVE HAWKER remarked "fascinating" and pointed out that the now emeritus head of AIDEA is part of the Walker Administration. He said if the blame is being laid on Mr. Leonard he would like to hear Mr. Leonard's response.

MR. SHEFCHIK answered it was no blame, it was a description of there was enough money to make a good start and that is the effort AIDEA continues to do.

3:06:29 PM

MR. PARADY returned to the presentation. Turning to slide 15 he said AIDEA board resolution G15-02 approved the expenditures to evaluate the alternatives to the North Slope Concession Agreement. Passed by the board on [January 14, 2015,] it includes \$500,000 in SETS funds and \$200,000 in AIDEA funds. The purpose is to assess non-North Slope alternatives to meet the goals of IEP. Moving to slide 16 he said a total of \$295,000 has been expended to date and was used for plant cost estimate, the liquefaction RFP, transportation modeling, distribution and storage design, web site outreach, project management, and legal expenses.

3:07:28 PM

REPRESENTATIVE HAWKER inquired whether a change occurred in Mr. Parady's interpretation of what was going to be accomplished under AIDEA Resolution G15-02.

MR. PARADY replied he senses a deeper question, but said his first answer is no. He requested Representative Hawker to ask the next part of the question.

REPRESENTATIVE HAWKER paraphrased from Resolution G15-02: "the staff of the Authority is proposing that the Authority reposition the Interior Energy Project by evaluating several potential sources of natural gas combined with utilization of methods to finance the infrastructure needed to supply energy to the Interior. These alternatives may include, but are not necessarily limited to, obtaining natural gas from the North Slope, Cook Inlet, or other locations." Representative Hawker recalled previous testimony in which it was stated that this was a study. However, he said, an upcoming chart in today's presentation says it is not a study. He asked what happened that it ceased being a study. He further believed it was stated in previous testimony that AIDEA would have answers and would present them to the legislature this summer. Now, however, it seems the money is being used to advance a specific Cook Inlet project rather than to identify different projects for consideration as to what might be the most efficacious.

MR. PARADY responded it is both things said by Representative Hawker: to complete the assessment and to move the project forward.

[3:09:22 PM](#)

REPRESENTATIVE HAWKER paraphrased from the next paragraph [in Resolution G15-02]: "a process-driven evaluation of alternative means of supplying energy to Interior Alaska." He said he would have been more comfortable with testimony that had said, "Yes, we were going to look at alternate means but we've decided we've ... got this other project and we think the money can be better spent there." He asked what other alternatives are being looked at other than what is being presented today.

MR. PARADY deferred to Mr. Shefchik.

MR. SHEFCHIK answered that the evaluation will consider North Slope proposals as well as Southcentral proposals. Two or three entities have put forward propane solutions. As AIDEA puts out an RFP the expectation is that it will look to liquefaction capacity and also entertain other alternatives. The RFP process will competitively solicit proposals from private entities for evaluation down to two or three that will get more effort and scrutiny and negotiation from which one will be picked.

REPRESENTATIVE HAWKER remarked that he likes looking at the alternatives and studying them so that everyone has information upon which to make the best decisions possible. But, he said, today's presentation is all about how great one is and why this bill needs to be passed to get running with one conception. It is not about studying alternatives, he argued, given nothing has been heard in today's presentation about studying an alternative to anything.

[3:11:55 PM](#)

MR. PARADY resumed the presentation. Turning to slide 17 he said the components of the project include supply, liquefaction, transportation, storage and regasification, distribution and conversion. Elaborating on the gas supply and liquefaction components he moved to slide 18, saying DCCED is leading the effort to facilitate Cook Inlet natural gas. Solicitation to all Cook Inlet gas vendors is in process. All current potential suppliers will be invited to participate in an open competitive process. The RFP is to be issued for LNG capacity. The focus is on Cook Inlet, but consideration of the North Slope and

alternates will be made, which speaks to Representative Hawker's concerns. Proposals will be evaluated that include both [natural gas] supply and LNG capacity and try to establish competition between private developers to achieve the lowest price using the IEP tools.

MR. PARADY moved to slide 19, explaining that for the components of storage and transportation the use of capital will want to be optimized to meet IEP goals. The North Slope analysis tools are applicable to these components as AIDEA moves forward. For example, is it more economic to invest in LNG plant capacity? Trucks? Or LNG storage? Storage is one of the critical components in decision making in this project going forward. Regarding transportation logistics and cost, there are serious questions to be answered in terms of levelized versus seasonal swing and establishing the LNG storage size is driven by the supply chain, which leads into evaluating trucking versus rail, the size and capital cost of the selected plant, and the cost of the seasonal swing versus the cost of storage.

[3:13:48 PM](#)

MR. PARADY noted there has already been substantial discussion today regarding the distribution and conversions components [slide 20]. He said the conversion study, which is substantial and detailed, can be found on IEP's web site. Gas trucking remains a transition to piped gas, which speaks to the duration of the project. Distribution buildout is required regardless of the source and the buildout continues this summer. The distribution adjustments are expected for summer 2016 based on the LNG capacity and what results from the Pentex outcome as work continues to blend those two distribution utilities together. An accomplishment of the project to date is to rationalize the delivery of gas in Fairbanks by combining those two entities. The potential acquisition of Pentex/FNG is ongoing with due diligence. If the acquisition occurs there is potentially a savings this fall to current customers as well as long-term efficiencies to benefit all residents. The approach of AIDEA is to divest the ownership and operation structures into an integrated FNG and IGU utility.

MR. THERRIault addressed the key component of conversion [slide 20], reiterating there is the existing Alaska Housing Finance Corporation (AHFC) rebate program, the potential of on-bill financing for residential, and PACE financing should the legislature allow that mechanism to be in place to help with businesses. Interest has been expressed at the local level that

there is probably a role for local government to play in helping to get those conversion mechanisms in place.

3:15:30 PM

MR. PARADY moved to slide 21, saying that the IEP's targets for June 30, 2015, are to have a gas supply agreement at a term sheet level, which is not a contract where there is an understanding of volume, price, duration, and basic delivery terms.

REPRESENTATIVE HAWKER inquired whether AIDEA intends to be a signatory to the aforementioned term sheet.

MR. PARADY replied he thinks the answer is no. He deferred to Mr. Szymoniak.

MR. SZYMONIAK concurred, stating AIDEA would not be a signatory of that term sheet, AIDEA would be a facilitator and would have no commitment to buy the gas. It would be the utilities.

REPRESENTATIVE HAWKER asked who AIDEA anticipates will be the signatories to that term sheet.

MR. SZYMONIAK responded the signatory on the term sheet would be GVEA, IGU, and FNG. Pending AIDEA acquisition of FNG, AIDEA may temporarily be a signatory through its role as the FNG owner.

REPRESENTATIVE HAWKER inquired whether AIDEA has a supplier on this term sheet.

MR. SZYMONIAK answered no, not yet.

MR. PARADY added the solicitation hasn't been published yet.

REPRESENTATIVE HAWKER understood the intention is for this term sheet to be between whoever is going to supply gas for the project and the utilities that will be consuming the product.

MR. PARADY replied yes.

REPRESENTATIVE HAWKER asked what term of commitment is expected on the term sheet.

MR. SZYMONIAK responded the expectation is a long-term contract of ten years or longer, with a minimum of five years.

3:17:27 PM

REPRESENTATIVE HAWKER inquired how active AIDEA expects to be in the negotiation of this agreement between two arms-length commercial parties.

MR. SZYMONIAK answered he expects AIDEA will be as active as directed by the utilities; AIDEA will be working on their behalf and to the extent that they sponsor AIDEA's activity work to aggregate the gas supply agreements between three utilities into one commercial process.

REPRESENTATIVE HAWKER understood that AIDEA's client will be the utilities and AIDEA will be working dedicated to the utilities. He asked how that relates to AIDEA's responsibility to the State of Alaska as a whole as well as to other utilities in the state who may be competing for the same resource.

MR. PARADY replied he would refer AIDEA to the original goals of the IEP as set by Senate Bill 23: AIDEA's role is to support the delivery of affordable energy into Interior Alaska. He related there has been discussion in the past that Fairbanks cannot be handled in a way that is disruptive to ENSTAR or other utility entities and their 139,000 customers in the Anchorage area. The question is whether there is enough room for both operations within that same supply and the potential answer appears to be yes, but the details remain to be worked through.

REPRESENTATIVE HAWKER understood ENSTAR has expressed interest in becoming the operator of the potential consolidated utility in Fairbanks. He asked what AIDEA's role will be in negotiating a term sheet between the Fairbanks utilities and ENSTAR.

MR. PARADY responded that, pending completion of the Pentex process, as the owner of the FNG utility AIDEA's role would stem from that ownership position.

REPRESENTATIVE HAWKER interpreted Mr. Parady's reply to be "you'll think about it when it happens if it happens."

MR. PARADY answered it's a tremendously interesting idea given ENSTAR's success as a progressive, stable, long-term utility owner. However, ENSTAR is not the only potential partner in that activity and it remains to be seen as it comes forward.

REPRESENTATIVE HAWKER remarked he looks forward to seeing a more fleshed out proposal for this entire project.

3:20:00 PM

MR. PARADY returned to the presentation. Continuing with slide 21, he said the June 30 targets include: identifying supply chain partners, [bringing the project] to the AIDEA Board in terms of development agreements and determining how to deploy the state's capital; dealing with the Pentex acquisition in regard to its resolution and integrating Pentex and IGU; and setting timeline and component pricing.

MR. PARADY concluded the presentation by moving to slide 22 to summarize. He thanked the committee members for today's robust discussion, saying that to be successful the project must be able to withstand critical scrutiny. Noting that this project was set before [AIDEA] by the legislature in Senate Bill 23, he said diligent work is continuing to accomplish its goals. He said HB 105 would increase the project's flexibility and improve the likelihood of success. He added that AIDEA welcomes the chance to work with the legislature and the committee on moving the bill forward.

3:21:05 PM

REPRESENTATIVE HAWKER understood AIDEA has no intention of owning or controlling the development and distribution of gas molecules, that AIDEA does not intend to become a gas company. He inquired whether that statement applies to all other state entities and agencies or whether it is just AIDEA to which that restriction is being made. He further inquired whether there is an intent by the State of Alaska, through another entity, to be owning or controlling gas that will be used for this project.

MR. PARADY replied not to his knowledge.

MR. THERRIAULT concurred.

MR. SZYMONIAK concurred.

REPRESENTATIVE SEATON, in regard to the aforementioned point, noted that if there is a large-scale North Slope gas pipeline the state would own 25 percent of the gas and he would expect that the state might be supplying gas to that utility. He said he wants to make sure it isn't being said that [the state] would never use any of the gas that [the state] has in a large-scale pipeline to supply Fairbanks. He asked whether that is what Mr. Parady was stating.

MR. PARADY responded no.

[3:22:40 PM](#)

REPRESENTATIVE SEATON noted that the state: is subsidizing a project for lower cost Interior energy; has subsidized gas for years through several kinds of credits into the Cook Inlet Basin; has not had any realistic production tax on gas in Cook Inlet so as to ensure that gas is the cheapest possible for Anchorage; and has put in tax credits for CINGSA that must pass through to consumers. He said he is very concerned that the state not overly subsidize Fairbanks. He stated he doesn't want to get into the situation of where the legislature can't do anything without being criticized for trying to have all parts of Alaska get reasonably priced energy. One of the legislature's primary goals - whether on the North Slope, in Western Alaska, down the river system, or into Anchorage or Homer - is trying to get lower cost energies available. As the legislature goes forward, he said he wants to ensure that the discussion is balanced and that Senate Bill 23 is implemented in this administration under the same kind of terms the legislature would have thought reasonable previously. He announced he has a couple of amendments he plans to bring forward, one for a small diameter gasline from Cook Inlet northward, as was included in language on the Senate side, and one for a propane/air mixture that would go into the pipe distribution systems coming out of Prince Rupert.

[3:25:52 PM](#)

REPRESENTATIVE SEATON opined that the only aspect of the project that worries him is the FNG purchase and the LNG facilities being sold to Hilcorp with a 10 year take or pay contract, which seems to put some of those other alternatives at risk. He opined that worrying about Anchorage's supply is unusual given that the committee just passed a tax credit bill to encourage Agrium to use a large amount of Cook Inlet gas for industrial product. He encouraged AIDEA to provide members with an analysis of what a 10 year take or pay contract could mean and how that could be offset, such as using that liquefied natural gas to supply coastal towns like Seldovia, Seward, Kodiak, and Cordova. As he sees it, that could be something that would actually confound the use and investigation of a pipeline going north as well as bringing Prince Rupert propane by railroad to Fairbanks. He said looking at more than one alternative to get

cheaper energy to Fairbanks requires more analysis than just liquefied natural gas.

[3:28:52 PM](#)

CO-CHAIR TALERICO offered his appreciation for today's tough questions and the answers to them. He said the state's second biggest municipality definitely needs affordable energy and not having it will impact everyone between Ketchikan and Barrow.

MR. THERRIault noted that AIDEA had engaged in the discussions on the committee substitute language on the Senate side that was referred to by Representative Seaton. He offered AIDEA's help during the committee's forthcoming work.

[3:29:49 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:29 p.m.