

**ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE**

April 8, 2015

2:05 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

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."

- MOVED CSHB 105(RES) OUT OF COMMITTEE

HOUSE BILL NO. 112

"An Act repealing the Alaska Commercial Fisheries Entry Commission and transferring its duties to a commercial fisheries entry division established in the Department of Fish and Game and the office of administrative hearings; and providing for an effective date."

- BILL HEARING POSTPONED

HOUSE BILL NO. 38

"An Act relating to the rapid response to, and control of, aquatic invasive species and establishing the aquatic invasive species response fund."

- SCHEDULED BUT NOT HEARD

HOUSE JOINT RESOLUTION NO. 20

Urging the United States Congress to enact legislation to clarify and recognize each individual state's authority to manage the fish and wildlife within its borders.

- BILL HEARING POSTPONED

HOUSE CONCURRENT RESOLUTION NO. 6

Proclaiming July 2015 to be Alaska Peony Month.

- BILL HEARING POSTPONED

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
04/06/15	(H)	Heard & Held
04/06/15	(H)	MINUTE(RES)
04/08/15	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

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, answered questions on behalf of the administration, sponsor of the bill.

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, answered questions on behalf of the administration, sponsor of the bill.

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

POSITION STATEMENT: During the hearing on HB 105, answered questions.

JULIE MORRIS, Staff
Representative David Talerico
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During the hearing on HB 105, answered questions.

ROBERT PICKETT, Commissioner
Regulatory Commission of Alaska (RCA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 105, answered questions.

JOHN SPRINGSTEEN, Executive Director
Alaska Industrial Development and Export Authority (AIDEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 105, answered questions on behalf of the administration, sponsor of the bill.

JAMES HEMSATH, Director
Project Development and Asset Management

Alaska Industrial Development and Export Authority (AIDEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 105, answered questions on behalf of the administration, sponsor of the bill.

ACTION NARRATIVE

[2:05:44 PM](#)

CO-CHAIR DAVID TALERICO called the House Resources Standing Committee meeting to order at 2:05 p.m. Representatives Herron, Hawker, Tarr, Johnson, Olson, Seaton, Josephson, Nageak, and Talerico were present at the call to order.

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

[2:06:14 PM](#)

CO-CHAIR TALERICO announced that the first 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).]

[2:06:44 PM](#)

REPRESENTATIVE HAWKER moved to adopt Amendment 1, labeled 29-GH1019\H.9, Shutts, 4/7/15, which read:

Page 1, line 2:

Delete "**related**"

Insert "**requiring the Alaska Industrial Development and Export Authority to deliver to the legislature reports relating to the Interior energy project; relating**"

Page 5, following line 14:

Insert a new bill section to read:

"* **Sec. 8.** The uncodified law of the State of Alaska is amended by adding a new section to read:

REPORT. (a) The Alaska Industrial Development and Export Authority shall submit quarterly to the legislature a written report on the Interior energy project. The authority shall deliver the report to the senate secretary and the chief clerk of the house of representatives and notify the legislature that the report is available. The report must include

(1) a description of project progress on all components;

(2) an update on the status of local distribution infrastructure buildout;

(3) to-date and anticipated conversions; and

(4) a financial accounting of funds expended and funds anticipated to be spent, including loans, grants, and bonds.

(b) If requested, the Alaska Industrial Development and Export Authority shall provide a project briefing on the Interior energy project to the Legislative Budget and Audit Committee."

Renumber the following bill section accordingly.

REPRESENTATIVE TARR objected for purposes of discussion.

[2:07:02 PM](#)

REPRESENTATIVE HAWKER first provided an explanation for all of the amendments that he will be offering. He assured members and the public that he stands behind the commitment the legislature made over the recent years to dedicate efforts to providing energy cost relief to the people of Interior Alaska. The legislature has made this issue a priority and has dedicated substantial financial resources to it, and it is a good public policy that the legislature needs to stay with. Legislative bills are proposals of policy and bills draw policy boxes around things. A bill is introduced so it can be discussed publically in a manner that allows thinking about it and its consequences and legislators can decide whether it is a policy to be taken. The Interior Energy Project (IEP), [with its goal of] providing energy cost relief to the citizens of Interior Alaska, is very complicated. The state's commitment of several years ago has apparently been determined unworkable and now legislators are looking at redefining that commitment and how to manifest that. His personal policy in approaching these sorts of things is that the legislature's job is to draw a box around the policy that it wants; the legislature provides the parameters around how it wishes the policy to be developed and executed. He said he is

very concerned that legislators do not micromanage what goes on inside that box as it generally has unintended consequences. The amendments he is offering are about defining that policy box, not micromanaging within that box, legislators are charging the agency with figuring out what goes on inside the box. These "do no harm amendments" define the parameters, the borders, that legislators want the Alaska Industrial Development and Export Authority (AIDEA) and the Interior Energy Project (IEP) to operate within.

[2:10:46 PM](#)

REPRESENTATIVE HAWKER addressed Amendment 1, saying it is about preserving the legislature's power of appropriation. The legislature's ultimate authority is to make the policy calls and to commit the state's financial resources, he said. But before doing that the legislature needs to know what it is buying before writing those checks, and the legislature needs to know how many more checks will need to be written before the project is over. To that end Amendment 1 adds a legislative sanctioning requirement before AIDEA can access the sustainable energy transmission and supply development (SETS) bonding authorization that was provided previously to the North Slope gas trucking project and the bonding authorization that remains in HB 105.

The committee took an at-ease from 2:11 p.m. to 2:12 p.m.

REPRESENTATIVE HAWKER continued addressing Amendment 1, stating it is about good governance by requiring that the project submit quarterly reports to the legislature on the progress of the project, including an ongoing financial accounting. It provides specific authority for the Legislative Budget and Audit Committee to request and hold hearings as necessary to review the project's progress so the legislature can exercise its due diligence in monitoring the project.

[2:13:12 PM](#)

REPRESENTATIVE SEATON observed that the explanatory notes in the committee packet state that Amendment 1 paves the way for the Legislative Budget and Audit Committee to hold hearings as necessary to review AIDEA's progress. He further observed that page 1, lines 9-21, of Amendment 1 provide for the reporting to the Legislative Budget and Audit Committee. He said the amendment language does not appear to give that committee the authority to change anything, but such authority seems to be implied in the wording that describes the amendment.

REPRESENTATIVE HAWKER read page 1, lines 19-21, of Amendment 1: "(b) If requested, the Alaska Industrial Development and Export Authority shall provide a project briefing on the Interior energy project to the Legislative Budget and Audit Committee." He said that language is all there is, there is no more.

REPRESENTATIVE SEATON requested that the sponsor of HB 105 be able to come forward to talk to the proposed amendment.

FRED PARADY, Deputy Commissioner, Office of the Commissioner, Department of Commerce, Community & Economic Development (DCCED), replied that Amendment 1 is straight forward and continues the ongoing and vital communication that {AIDEA} has been having with the legislature and this committee, so it is appreciated.

[2:15:48 PM](#)

REPRESENTATIVE TARR observed that in the amendments the words "energy project" are not capitalized in the phrase "Interior energy project". She surmised this could be interpreted to be a little broader than a specific project. For example, in the PowerPoint presentation before the committee it was named "Interior Energy Project" as if it is a specific thing. She asked whether this is something that matters or is of concern.

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), responded he doesn't think so, especially because this is intent language and is not written right into the codified section of the statute. The Interior Energy Project, while focused on that core demand within the Fairbanks North Star Borough (FNSB), was always intended to serve the larger geographic area of Interior Alaska. Until the economics work on that core demand, however, it is going to be that much more challenging to serve any of the communities up and down the highway system or on the river system because they move together as one. First, that core demand justifies the very expensive infrastructure, and then working the economics so that it can spread beyond the Fairbanks North Star Borough.

[2:17:22 PM](#)

REPRESENTATIVE TARR removed her objection to Amendment 1. There being no further objection, Amendment 1 was adopted.

[2:17:40 PM](#)

CO-CHAIR TALERICO moved to adopt Amendment 2, labeled 29-GH1019\H.5, Shutts, 4/4/15, which read:

Page 1, following line 7:

Insert a new bill section to read:

"* Section 1. The uncodified law of the State of Alaska is amended by adding a new section to read:

LEGISLATIVE INTENT. It is the intent of the legislature that the financing authorized in sec. 6 of this Act be used only for the Interior energy project described in sec. 6 of this Act."

Page 1, line 8:

Delete "**Section 1**"

Insert "**Sec. 2**"

Renumber the following bill sections accordingly.

REPRESENTATIVE HAWKER objected for purposes of explanation.

[2:17:54 PM](#)

CO-CHAIR TALERICO explained that his intent with Amendment 2 is to "have a very clear definition in Section 6 of absolutely what this legislation intends for us to do." Amendment 2 makes it very clear to AIDEA and to this committee "exactly what we would be doing with this legislation."

REPRESENTATIVE HAWKER removed his objection to Amendment 2.

[2:18:31 PM](#)

REPRESENTATIVE SEATON objected to Amendment 2 for purposes of discussion. He requested the sponsor of the legislation to address the amendment.

MR. THERRIAULT queried whether Amendment 2 should say Section 5 instead of Section 6, pointing out that Section 6 in bill version 29-GH1019\H, which came out of the House Special Committee on Energy, deals with a partially used bond authorization.

RENA DELBRIDGE, Staff, Representative Mike Hawker, Alaska State Legislature, offered her belief that Amendment 2 is drafted

correctly because, first, a new Section 1 is being inserted which then renumbers all of the other sections, and therefore Section 5 of 29-GH1019\H becomes Section 6 in Amendment 2.

JULIE MORRIS, Staff, Representative David Talerico, Alaska State Legislature, added that it was semantics.

MR. THERRIAULT, given the explanation and that Amendment 1 was adopted, agreed that Amendment 2 is drafted correctly.

REPRESENTATIVE HAWKER clarified that Amendment 1 had no effect, each amendment stands on its own. He said it is the inserting of a new bill section in Amendment 2 that causes the shift from Section 5 to Section 6.

MR. PARADY noted there is no intent to use the tools of Senate Bill 23 [passed in 2013 by the Twenty-Eighth Alaska State Legislature] for a project other than the IEP; Amendment 2 is straight forward.

[2:21:14 PM](#)

REPRESENTATIVE SEATON removed his objection to Amendment 2. There being no further objection, Amendment 2 was adopted.

[2:21:45 PM](#)

REPRESENTATIVE HAWKER moved to adopt Amendment 3, labeled 29-GH1019\H.7, Shutts, 4/7/15, which read:

Page 1, following line 7:

Insert a new bill section to read:

"* Section 1. AS 42.05.711(b) is amended to read:

(b) Except as otherwise provided in this subsection and in (o) of this section, public utilities owned and operated by a political subdivision of the state, or electric operating entities established as the instrumentality of two or more public utilities owned and operated by political subdivisions of the state, are exempt from this chapter, other than AS 42.05.221 - 42.05.281 and 42.05.385. However,

(1) the governing body of a political subdivision may elect to be subject to this chapter;
[AND]

(2) a utility or electric operating entity that is owned and operated by a political subdivision

and that directly competes with another utility or electric operating entity is subject to this chapter and any other utility or electric operating entity owned and operated by the political subdivision is also subject to this chapter; this paragraph does not apply to a utility or electric operating entity owned and operated by a political subdivision that competes with a telecommunications utility; and

(3) a natural gas distribution system and affiliated infrastructure that provides natural gas to Interior Alaska and receives financing through the Alaska Industrial Development and Export Authority sustainable energy transmission and supply development fund (AS 44.88.660) is subject to this chapter."

REPRESENTATIVE TARR objected.

[2:21:52 PM](#)

REPRESENTATIVE HAWKER stated Amendment 3 is an amendment about consumer protection. It specifically subjects the Interior Energy Project to rate regulation under the Regulatory Commission of Alaska (RCA). He explained this is being done because both AIDEA and the Interior Gas Utility (IGU) are political subdivisions of the state and, as such, would be automatically exempt from rate regulation without Amendment 3. Alaska has a provision in law that generally exempts these political subdivision entities from rate regulation because when the public has an issue with a publically-owned entity - say, a utility managed by a city council - the public can take it up at the next election by replacing the city council. That is how consumers can weigh in and protect themselves from a political management standpoint. However, this very complicated project is incredibly confusing and the outcome is very uncertain. The RCA is a quasi-judicial deliberative body responsible for weighing the facts and ensuring that the public is properly protected. Currently involved in this Interior Energy Project is a letter of intent from AIDEA to acquire Fairbanks Natural Gas (FNG). Testimony from AIDEA is that it doesn't intend to become a gas company, but will transfer that off to IGU. However, there is no letter of intent with IGU so as to know what that is going to look like or how it is going to work. [The legislature] is affecting the lives of all those citizens in Fairbanks and North Pole who are going to be dependent upon these utilities. If AIDEA hands FNG off to IGU it is unknown what the terms and costs will be, what the cost recovery will require, and what burden will be placed on the ratepayers.

2:24:57 PM

REPRESENTATIVE HAWKER continued addressing Amendment 3, stating it is unknown who will be operating the utility. What if the transaction falls through and AIDEA ends up owning the utility and it is going to be run by the State of Alaska? What are the intentions of AIDEA going to be and what is the state's experience and qualifications to run a public utility? These questions need to be answered in the process of making the Interior Energy Project real. However, the magnitude of these questions and the uncertainty warrants the absolute protection of the ratepayer that could be provided by the quasi-judicial oversight of the RCA. These utility customers cannot weigh in and un-elect the folks at AIDEA like they can do with their local utility. Additionally, IGU is going to serve a number of different political subdivisions of the state, so it is not going to be a situation where a particular subdivision can weigh in and influence the management of IGU should this project be handed off to IGU. This consumer protection oversight from the RCA is to protect ratepayers. The mission of these particular utilities, through a very complicated section of the law, is to ensure that the rates charged to those customers are just and reasonable. That is why there is the RCA and why the RCA regulates most of the large utilities around the state. Because IGU is a brand new utility the operator is unknown and there is no cash flow, so IGU must incur debt for every bit of buildout that it has. The customers who are going to be affected by all of these very uncertain items need to have a protective umbrella to ensure the greatest possible protection government can provide. Government is doing its best to step in and provide the energy project on one side of the coin, and it must not be forgotten that this is going to affect the lives of real people. In the effort to get less expensive gas to those folks, it is not wanted to actually end up costing those folks more than they've got now. Therefore, he has the greatest confidence that, at this time, imposing RCA rate regulation on the Interior Energy Project is in the best interest of the consumers in Fairbanks and legislators as policy makers.

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REPRESENTATIVE SEATON requested Mr. Robert Pickett of the RCA to address the aforementioned.

ROBERT PICKETT, Commissioner, Regulatory Commission of Alaska (RCA), Department of Commerce, Community & Economic Development

(DCCED), stated the RCA has not taken a position on HB 105 or any of the amendments at this point.

REPRESENTATIVE SEATON inquired how RCA's regulation of the Interior Energy Project, AIDEA or a state-owned entity, or another entity would work, and what the timeframes would be in those regulatory matters.

MR. PICKETT answered the RCA does not regulate the Interior Energy Project, it regulates certificated utilities. At this point in time in Fairbanks there is Fairbanks Natural Gas (FNG), which has been certificated since the mid-1990s. More recently there is the Interior Gas Utility (IGU) - it was a contested proceeding that was concluded in December 2013. He said he must be somewhat cautious at this point because the RCA has two open docketed matters with Fairbanks Natural Gas which is becoming economically regulated for the first time. There is an open docket with a procedural schedule and a discovery in process and there is a liquefied natural gas (LNG) purchase agreement between Harvest and Fairbanks Natural Gas. He said this is a policy question for the legislature to make. The RCA is a creation of the legislature through AS 42.05.06 and 42.05.08 and the RCA will do whatever it is directed.

REPRESENTATIVE SEATON understood, then, that the RCA is currently regulating or has dockets on regulation of the two utilities.

MR. PICKETT corrected Representative Seaton's statement, stating the RCA has two dockets on one of the utilities. During its certification proceedings, IGU had a list of things that it wanted attached to its certificate, one of which was to be rate regulated. The RCA pointed IGU to AS 42.05.711(b) and the fact that as a municipally-owned utility IGU would specifically have to petition the RCA to be rate regulated. In its final order the RCA indicated that IGU would need to file a tariff with the RCA no later than April 1, 2015, to meet IGU's schedule, but that did not happen. So, at this point, IGU is not economically regulated.

[2:31:56 PM](#)

REPRESENTATIVE SEATON asked about the timetable and how the distribution of natural gas would be affected and handled if the utility is not yet economically regulated and Amendment 3 is adopted.

MR. PICKETT replied that the utility, once it decides it needs to be rate regulated, will have to make a filing with the RCA. He said it is very challenging when starting a new utility from the ground up. There are always concerns about a small customer base, large capital expenditure, and how to work that out so it doesn't become too burdensome for individual ratepayers who sign up early. There are different mechanisms to use. One case in point is Goat Lake Hydro in Southeast Alaska, which in the late 1990s created essentially a rate stabilization fund. Given the number of customers and the amount of capital expenditures for the dam, things needed to be stretched out until everybody was on line and so it wouldn't present huge rate shock to the ratepayers. The ball is going to be in the courts of the IEP and IGU as far as what their buildout plan is and what kind of a case they can present.

REPRESENTATIVE SEATON recalled that [in a previous committee meeting] AIDEA talked about a 40-year payback on the pipe distribution system, whereas Homer had a 10-year payback. He inquired whether that fits in with the RCA's guidelines.

MR. PICKETT responded he doesn't see that as an issue because different utilities have different debt structures. Any of the bigger utilities will probably have 10-15 different tranches of debt, all at different terms and interest rates and some as long as 30 years.

[2:34:48 PM](#)

REPRESENTATIVE TARR, in regard to whether this would in fact be a consumer protection measure, asked whether the opposite could be true based on the financing and that it could result in the earlier ratepayers paying more because there would be so many expenses for the early part of the project and those expenses not being spread out more evenly.

MR. PICKETT answered that is what he was referring to when he mentioned a rate stabilization fund. In some fashion the rates for the people who sign up early are going to need to be stabilized either through some AIDEA mechanism and through the loan proceeds, or through some formalized rate stabilization fund in the case of an entity that has a capital structure of 100 percent coming from the proceeds. It would just be how long to stretch that out, what amount, and whether the projections for the buildout are realistic since people will not sign up otherwise.

[2:36:15 PM](#)

REPRESENTATIVE OLSON inquired whether there has been any dialogue between the board of the Alaska Gasline Development Corporation (AGDC) and the RCA commissioners, or possibly an open docket regarding whether the RCA would have potential jurisdiction over [IGU].

MR. PICKETT replied the RCA doesn't have jurisdiction over Interior gas at this point. The statute is clear on that and [IGU] has made no election to have the RCA exercise any jurisdiction. That was somewhat different than what the representations were during the contested hearing, but that's certainly within the right of IGU and the Fairbanks North Star Borough.

REPRESENTATIVE OLSON clarified his question was whether there was any dialogue between the RCA commissioners and AGDC's board on that issue.

MR. PICKETT answered no, not that he is aware of.

[2:37:23 PM](#)

MR. PARADY voiced his concerns with Amendment 3, saying that they rest in the good faith that everyone has while working to make this project work. It is found in the existing statute on line 9 of Amendment 3, which states: "(1) the governing body of a political subdivision may elect to be subject to this chapter". The Fairbanks North Star Borough (FNSB) is the owner of the Interior Gas Utility (IGU) and [FNSB] has the ability under existing statute to seek rate regulation if it is in the best interest of its taxpayers and citizens. The aforementioned RCA docket was adjudicated on December 20, 2013, and it states specifically that the governing body of a political subdivision may subject itself to regulation under AS 42.05. The statute states that an election to be subject to AS 42.05 must be made by the governing body of the subdivision. In the current instance the governing body is the FNSB Assembly. No ordinance has been passed by FNSB, therefore under the operation of the statute IGU is exempt from regulation at this point in time. The reason that is worth considering is that state legislative protection is being offered to local government who already holds the power to provide that protection within its hands. The maker of the amendment opened his comment noting that the political subdivision retains the ability to control its utility rates. That remains true - [FNSB] has the ability to control

IGU. He offered his belief that government governs best that governs closest to the problem at hand. He said his concerns with the amendment are that it treats the natural gas distribution system in Fairbanks North Star Borough differently than the rest of the state because that statutory provision that provides for the local borough assembly to elect this option exists, and exists today, and will still exist into the future. A complicated regulatory process through the RCA is being added, when in the startup of this utility there is the issue of patient capital, low number of customers, and long-term high capital costs at the beginning, and this would put that through another filter with the RCA when local government is well positioned to handle it. The request for RCA regulation is within the authority of the existing statute and the existing authority of the Fairbanks North Star Borough Assembly, and therefore the question that has been raised is addressed in the current configuration.

[2:40:05 PM](#)

REPRESENTATIVE JOSEPHSON asked how Senate Bill 23, passed nearly unanimously in 2013, treated this question of the trucking scheme.

REPRESENTATIVE HAWKER recollected that it simply authorized the investment in that project. Since it was never the subject of a full legislative process where policy is proposed in legislation such as this it was never fully vetted, and the Senate Bill 23 amendment was silent on that matter. Senate Bill 23 also did not contemplate the state, through a state agency, owning a public utility as in AIDEA owning a company like FNG.

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REPRESENTATIVE SEATON stated he is somewhat disturbed by this because the legislature has been trying to get a gas project going on a fairly rapid basis to supply the Interior. Given what was heard from the RCA as well as the complexity, this could put a big damper on being able to move forward because it would require some kind of a [sinking] fund or some means to assure ratepayers that they are not going to be artificially paying more early on due to the utility having 100 percent debt. He said he doesn't understand this process well and needs more information from Fairbanks and others as to how they could structure this to work and not delay the project. Injecting another entity into the middle, he said, may not serve the

legislature's purpose of trying to accelerate more reasonable-cost energy to the Interior.

CO-CHAIR TALERICO inquired whether Mr. Pickett has a comment regarding the aforementioned.

MR. PICKETT answered that, in some fashion, there is going to be some mechanism to mitigate rate shock, whether that be through a fund that is originally funded through loan proceeds or some mechanism that AIDEA, in the absence of any RCA involvement, is going to have to figure out.

[2:43:56 PM](#)

REPRESENTATIVE TARR, regarding a rate stabilization fund, surmised that that would only be if Amendment 3 went through and that it would be a mechanism used through RCA regulation.

MR. PICKETT replied it would be a potential mechanism to look at. The RCA would look at the entire package and how AIDEA has structured the financing deal and what is and is not feasible.

REPRESENTATIVE TARR asked whether the possibility exists that that would be disallowed, that the process would get to a point where the RCA would say no to that because the financing was too long term or not enough people or some other factor that would should show not enough stability.

MR. PICKETT responded the RCA "has already made its finding in terms of the CPC and in terms of fit, willingness, and ability." A big part of that was the commitment the legislature had made through [Senate Bill 23] and also the representations made by the Fairbanks North Star Borough that at the end of the day it realizes it is the owner of the utility and will do what it needs to do to make this a success. Obviously, AIDEA has a disproportionate influence on this because it is going to be the funding source and is going to lay out the terms of the financing, when it is supposed to be paid back, and what portion may be soft or not as soft. Therefore, AIDEA will be a major driver in this whole thing, regardless of which way it goes with the regulatory part.

[2:45:42 PM](#)

REPRESENTATIVE SEATON said these are all interwoven parts and he is unsure about how complicated this would get if legislative

approval is required before AIDEA can offer that and also along with the RCA's involvement.

MR. PICKETT answered that as indicated by Representative Hawker, it seems like legislators want to set the general parameters and give the maximum flexibility to AIDEA to make sure this can happen.

MR. PARADY noted that adding the RCA to the process in a mandatory way - currently it's an elective way - adds regulatory complexity. As was noted in the introduction to Amendment 3, the RCA is itself a quasi-judicial body and the handling of filings and cases before that body can, in and of themselves, cost a substantial sum of money. It is not uncommon for filing processes to take \$1 million to work their way through.

[2:47:13 PM](#)

REPRESENTATIVE JOSEPHSON asked whether a rate stabilization fund, like the one used in the upper Lynn Canal [of Southeast Alaska], is within the power of the RCA to establish now, or whether it is something that this bill should address.

MR. PICKETT replied he is not sure the bill should address that. He explained the Alaska Power Company established a rate stabilization fund in the late 1990s for a fixed period of time to mitigate rate shock as the Goat Lake Hydro project came on line with submarine cables for Haines and Skagway.

[2:47:53 PM](#)

REPRESENTATIVE HAWKER provided closing remarks on Amendment 3. He said today's dialogue points out to him how essential it is that the legislature provide the consumer protection for the individuals who will end up one day having to pay rates from this project. Rate regulation in this case provides nothing more than protections of Alaska's citizens against bad management practices, ill-advised management practices, or simply mistakes on behalf of a dominant entity that is providing the funding, managing the process, literally going out and purchasing components of it that are going to be assembled by a single state agency. He said he is not so sure he is comfortable with a monopolistic state agency involved here without some sort of a protective umbrella for the citizens who will be affected. The committee has heard that initially IGU wanted to be rate regulated but then discovered it didn't have to file so it didn't. The committee has heard that the LNG

purchase agreement that AIDEA is currently undertaking with its purchase of the FNG distribution system is itself before the RCA, challenged by the attorney general of the State of Alaska for fear it will result in monopolistic control of the supply and distribution of energy and requires an anti-trust review. That is why there is the RCA to protect people. The committee has also heard that FNG has an application in process to become rate regulated for the first time. During his 13 years in the legislature, he related, he has heard complaints from FNG consumers about what they felt were predatory pricing practices by that entity. Those consumers have been asking for rate regulation to protect themselves. There was a judicial agency that looked to see if those costs were just and reasonable.

[2:50:15 PM](#)

REPRESENTATIVE HAWKER continued, stating no one is being treated differently here. This outside umbrella agency is specifically wanted to protect those people. There is no assurance whatsoever that AIDEA is going to engineer a rate stabilization agreement to protect customers. It is known that the initial customers at FNG are going to be paying \$15 per thousand cubic feet (MCF) of gas at city gate if the transaction to purchase Pentex Alaska Natural Gas Company, LLC, goes through. [The committee] has been told that it is unacceptable for anything less than \$15 at the burner tip for everybody else in the community with this AIDEA buildout continuing. That is discriminatory and is why the RCA is needed to protect those initial consumers against an unfair practice that is perpetrated unintentionally upon them. Consumers who come into the game later get cheaper gas with all the state subsidies involved, while at the same time the state is locking in those earlier customers to more expensive gas. Whether or not a complicated process is wanted, this is hugely complicated, and that is why a judicial agency is needed that can sort out these details and ensure that the decisions ultimately are in the best interests of those consumers. He urged the committee members to join him in passing Amendment 3.

The committee took an at-ease from 2:51 p.m. to 2:59 p.m.

[2:59:46 PM](#)

REPRESENTATIVE JOSEPHSON recognized the committee is pressed and has a lot to do between today and the end of session, but asked whether the co-chair is willing to invite the testimony of

either the City of Fairbanks or the borough mayor so members could hear their perspective on this.

REPRESENTATIVE TALERICO replied he doesn't think it wise to delay working through the amendments. He noted that the mayors of the City of Fairbanks and the Fairbanks North Star Borough are present. Responding to Representative Hawker, he returned to addressing Amendment 3 and asked whether the objection to the amendment was still maintained.

REPRESENTATIVE SEATON maintained his objection to Amendment 3.

[3:01:02 PM](#)

A roll call vote was taken. Representatives Herron, Hawker, Johnson, Olson, Nageak, and Talerico voted in favor of Amendment 3. Representatives Josephson, Tarr, and Seaton voted against it. Therefore, Amendment 3 was adopted by a vote of 6-3.

[3:02:02 PM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 4, labeled 29-GH1019\H.6, Shutts, 4/6/15, which read:

Page 2, line 17:

Delete "law"

Insert "**the legislature** [LAW]"

Page 4, lines 16 - 24:

Delete all material and insert:

"* **Sec. 4.** AS 44.88.900(16) is amended to read:

(16) "qualified energy development" means a development in the state that involves

(A) transmission, generation, conservation, storage, or distribution of heat or electricity;

(B) liquefaction, regasification, distribution, storage, or use of natural gas, **propane, or propane and air mixture; in this subparagraph, "distribution" does not include** [EXCEPT] a natural gas pipeline project for transporting natural gas from the North Slope or Cook Inlet to market **unless the pipeline has a diameter of 12 inches or less and transports the natural gas to Interior Alaska;**

(C) distribution or storage of refined petroleum products;"

Page 5, line 2:

Following "Alaska":
Insert "as a primary market"
Following "gas":
Insert "delivery and"

Page 5, line 12, following "Section":
Insert "2, ch. 27, SLA 1993, as amended by sec.
19, ch. 111, SLA 1996; sec."

REPRESENTATIVE HAWKER objected for purposes of discussion.

[3:02:11 PM](#)

REPRESENTATIVE SEATON explained the committee has been talking about allowing options to look at the Interior Energy Project and one of those is gas from Cook Inlet. There is a high probability, he said, that gas through a small diameter pipeline from Cook Inlet to Fairbanks would be cheaper, especially in the long term, than liquefying the natural gas and trucking or railing it to Fairbanks, and he wants to ensure there is the ability to look at that. He drew attention to page 1, line 13, of Amendment 4, which states: "natural gas, propane, or propane and air mixture". He said the reason for the propane or propane and air mixture language is that petroleum economists at the University of Alaska Fairbanks have presented to the House Community and Regional Affairs Standing Committee that a propane hydro train coming out of Prince Rupert could deliver propane cheaper than LNG and possibly cheaper than a natural gas pipeline. A March 24 [2015] editorial in the Fairbanks Daily News Miner talks about \$12 per thousand cubic feet (MCF) of natural gas at the North Pole terminal, which is \$16 at burner tip and therefore within range and should be evaluated. A propane and air mixture is used in regular gas lines with the natural gas burner tips, so switching back and forth between a propane and air mixture and natural gas can be done without having to do any modifications. The big thing with propane is the ability to supply cheaper energy to customers throughout Interior Alaska where the population density is not high enough to support building a pipeline system. Amendment 4 would ensure that the Interior Energy Project is not just limiting itself to one way to lower the economics of heat energy to Alaska. Plus, [propane] can be burned in generators.

CO-CHAIR TALERICO invited the administration to comment.

MR. PARADY stated Amendment 4 incorporates changes already seen in the Senate. Adding alternatives such as propane is useful, he said, so the amendment is appreciated.

[3:06:06 PM](#)

REPRESENTATIVE HAWKER removed his objection. There being no further objection, Amendment 4 was adopted.

[3:06:22 PM](#)

REPRESENTATIVE HAWKER moved to adopt Amendment 5, labeled 29-GH1019\H.8, Shutts, 4/6/15, which read:

Page 4, following line 15:

Insert new bill sections to read:

*** Sec. 4.** AS 44.88.170(a) is amended to read:

(a) **Except as provided in (c) of this section, nothing** [NOTHING] in this chapter prevents the inclusion in a lease or other agreement relating to a project of a provision granting the right to purchase the project, or to renew or extend the lease or agreement, upon the terms and conditions which may be provided for in the lease or agreement.

*** Sec. 5.** AS 44.88.170 is amended by adding a new subsection to read:

(c) Unless the authority has obtained legislative approval, the authority may not purchase or acquire gas reserves or a gas lease or become a working interest owner of a natural gas lease."

Renumber the following bill sections accordingly.

REPRESENTATIVE TARR objected.

[3:06:31 PM](#)

REPRESENTATIVE HAWKER said Amendment 5 is about the legislature making a policy call that says "we do not wish AIDEA to become a state-owned oil and gas company." Amendment 5 would require legislative approval to be granted before AIDEA can purchase or acquire natural gas reserves or leases, or become a working interest owner of a natural gas lease. Specifically, it would amend AS 44.88.170, a catchall section in the authorizing statutes related to AIDEA's purchase of projects and entering into various leases, and oil and gas leasing is essentially a leasing activity. The legislative legal drafters thought this

the best section to place this. The reason for requiring this legislative approval is that legislators have heard repeatedly over the past several months about folks in the administration talking with energy producing companies in the Cook Inlet about acquiring their gas reserves in the ground and asking those entities about becoming a working interest owner in order to establish a gas supply for the Interior Energy Project. Some of this has gone on without the knowledge of the folks at AIDEA; two different sides of the administrative government are working on the same project but not necessarily in coordination. Maybe it is a good thing for IEP to acquire working interest in the Cook Inlet, he allowed, but the committee ought to be making a policy call today that requires legislative permission to do that. It would be a wholesale change of state policy to establish an essentially state-owned oil and gas company. The legislature would not want to enter into that level of change in its philosophy of managing the state's resources without a great deal of separate deliberation and consideration.

3:09:20 PM

REPRESENTATIVE HAWKER continued his explanation of Amendment 5, noting that three Interior utilities are actively involved in this: Golden Valley Electric Association (GVEA), Interior Gas Utility (IGU), and Fairbanks Natural Gas (FNG), and possibly AIDEA. Nothing in Amendment 5 and nothing in the statute prohibits those entities from working or banding together to do collaborative buying and to negotiate the best possible agreements, just like all the other utilities in the state that have to procure gas from the Cook Inlet through negotiation in the open market. Those utilities include Homer Electric Association, Inc. and ENSTAR Natural Gas Company, the company that he represents. He said he isn't sure it is a good idea for the legislature to allow the state, with its heavy hand of regulation and ability to punish entities that do not do what the state tells them to do, to be able to compete on behalf of certain utilities against the other utilities of the state. The state moving into ownership of oil and gas leases in the Cook Inlet, and bringing to bear its regulatory authorities, could threaten the stability of what is currently a very delicate market. Two years ago there was not enough gas in the Cook Inlet for anything, and while it now appears that there is more gas, care must be taken with letting the state weigh in too hard. He urged that the committee provide the policy box for the folks at AIDEA that says the legislature would prefer AIDEA not be a state-owned oil company until it brings a specific proposal to the legislature for specific review and evaluation.

3:11:52 PM

REPRESENTATIVE JOSEPHSON inquired whether AIDEA hasn't already been involved with the legislature's say-so in the Mustang field in terms of backing reserves there and using AIDEA's collateral for that purpose.

REPRESENTATIVE HAWKER replied AIDEA has, as directed by the legislature, provided financial incentives to help the private sector develop its own activities, including AIDEA's support of Furie Operating Alaska, LLC, in the Cook Inlet. However, it is different in that the state is providing the support for private sector development as opposed to the state stepping in and owning the resource itself and becoming a direct part of an exploration and production activity.

REPRESENTATIVE JOSEPHSON responded by saying, "like AGDC is."

REPRESENTATIVE HAWKER answered AGDC has absolutely nothing to do with being an exploration and production company.

REPRESENTATIVE JOSEPHSON understood that, but said it is direct ownership share by a state agency.

REPRESENTATIVE HAWKER responded not of the natural resource.

3:13:27 PM

REPRESENTATIVE HERRON expressed his fear of the state becoming, in essence, a sub-national oil company and requested Mr. Parady to comment in this regard.

MR. PARADY replied he has never heard a whisper of conversation in AIDEA regarding becoming an oil and gas company. He said he doesn't believe that that has any traction as a workable idea, the magnitude of that is mindboggling. He noted that AIDEA has a concern with Amendment 5 because it potentially impacts other projects and has unintended consequences. He deferred to Mr. John Springsteen to provide further response.

JOHN SPRINGSTEEN, Executive Director, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), responded he is concerned Amendment 5 would disrupt AIDEA's ability to do what the legislature intends AIDEA to do to support resource development in the state. It would create a hurdle to financing

independent, small and medium sized oil and gas developers. When AIDEA offers financing to these developers, he explained, reserves and working interests are often a portion of the security and collateral for the financing.

[3:15:03 PM](#)

CO-CHAIR TALERICO stated he thinks Amendment 5 is aimed at direct ownership and not financing, in other words [AIDEA's] name is on the title so to speak. He said he sees a huge difference between providing the actual collateral to get financing and being the outright owner. He requested Mr. Springsteen to comment on this.

MR. SPRINGSTEEN answered the phrase "become a working interest owner of a natural gas lease" [is of concern]. Often AIDEA is provided security and collateral in the form of if there is not performance on the financing that AIDEA would then, as a fact of default or nonperformance, become a working interest owner of a natural gas lease since that is the security or collateral that is offered.

[3:16:00 PM](#)

REPRESENTATIVE HAWKER said he can appreciate the argument for the ability to stake the greatest claim on the collateral of an entity that [the state] is supporting. He posited that collateral agreements could be structured so that, should it be necessary to foreclose, the collateral would go back to the sovereign, the Department of Natural Resources, where it really belongs and not into the hands of AIDEA. Amendment 5 specifically says "unless the authority has obtained legislative approval". This is where if AIDEA wishes to establish a situation where it could accede to working ownership rights in active exploration and production development he thinks AIDEA needs to bring a specific proposal to the legislature to discuss its merits, which is why this amendment should be passed.

MR. PARADY allowed Representative Hawker's comments are well founded that, on its plain face, the issue is not material. However, the language "become a working interest owner of a natural gas lease" is of substantial concern because it has unintended consequences to AIDEA's routine operations as directed by the legislature in the context of financing. The Mustang operation center is an example and Mr. Springsteen could elaborate further on the collateral and its collection.

[3:17:52 PM](#)

REPRESENTATIVE TARR, regarding the suggestion that in a default situation the resource should go back to the sovereign, posited that that would leave AIDEA in a position of being unpaid and would need to find some way to be paid. She asked how that situation would be resolved.

MR. PARADY deferred to Mr. Springsteen or Mr. Leonard.

MR. SPRINGSTEEN agreed there would need to be some provision that AIDEA would be whole in its financing arrangement with the borrower. He deferred to Mr. James Hemsath for providing detail on the Mustang opportunity.

JAMES HEMSATH, Director, Project Development and Asset Management, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), stated that his section is responsible for, and did the deal with, Brooks Range Petroleum as it relates to Mustang. He said AIDEA has, through its LLC in partnership with "CES Singapore Corporation", a 20 percent working interest in the Mustang field. He continued:

That working interest is important to us in two ways. One is collateral has been discussed, but it also defines the very specific stream of revenue that we're using for our return of revenues for the ownership, or the leasing of the operating facility, the operating company Brooks Range. With regard to the working interest owner, as we put a lien, or, which a working interest owners and ownership or a lien on a field, those have to be perfected. You're not halfway in, you're either a working interest owner or you're not. You're not a working interest owner only in the case if something happens in default that that negates the security that negates the collateral. Quite frankly, the Department of Natural Resources [DNR] doesn't like it. We lost almost two months in our project schedule this year with DNR as we perfected the working interest ownership with AIDEA. They are very, very particular on it and they don't like halfway things. So that aspect of working interest owner is very, very critical to us in terms of not only collateral on security on a deal but also in identifying, if necessary, revenue streams and where they are coming from.

MR. HEMSATH, regarding AIDEA's investment and ability to have this kind of collateral in Mustang specifically, stated that AIDEA's \$70 million of investment leveraged almost \$700 million of investment in that field and that simply would not have taken place if AIDEA hadn't been involved. That aspect of collateral and working interest ownership was a key component of that deal.

[3:20:45 PM](#)

REPRESENTATIVE HAWKER said he understands contracts and where Mr. Hemsath is going to at this point. The specific issue of working interest at Mustang is an interesting conundrum. As the maker of Amendment 5 he said he believes it remains absolutely critical that the legislature tell the elements that have been trying to negotiate in-place resources in Cook Inlet for the Interior Energy Project that this is not something that will be entered into without further discussion by the legislature. He recognized the concerns that have been pointed out with Mustang, but said he still believes the amendment should be passed as it is. He offered his commitment to working with the folks at AIDEA as HB 105 moves through its next committee and onto the floor to find a further amendment that can relieve the concerns raised by AIDEA today with regard to financing and working within projects in the North Slope in the manner the committee has been discussing.

[3:21:55 PM](#)

REPRESENTATIVE TARR stated that in addition to the concerns raised by AIDEA, she is concerned about timing because this might hinder AIDEA's ability to move forward on the project over the next eight months and having to wait to come back to the legislature. If there were other important items before the legislature things could get pushed out even further. She inquired whether, in the financing world, that kind of delay could cause things to fall through by adding uncertainty since there would be no guarantee that the legislature would give approval.

MR. PARADY replied timing is of concern and will come up again when Amendment 6 is discussed.

[3:23:38 PM](#)

CO-CHAIR NAGEAK remarked that what the committee is doing today is protecting the interests of the State of Alaska. The job of

the legislature is to listen to the administration and then deliberate, that is the process. Legislators need to understand exactly what the state is getting into. Without amendments and discussion legislators would be derelict in their duty.

REPRESENTATIVE SEATON said he is supportive of the idea of not acquiring gas reserves, but uncomfortable with passing an amendment that has "collateral damage" on the ability of AIDEA to do other things. He urged that Amendment 5 be redrafted with all the particulars in it and then passed. That way, the committee would be voting on an amendment that does not curtail what the legislature has asked AIDEA to do, such as with Mustang and others.

REPRESENTATIVE JOSEPHSON stated he thinks AIDEA's officials have made the case that there is direct linkage between the words "working interest owner of a natural gas lease" and [AIDEA's] security and collateral attached to that working interest. This is a resource development issue, he said, this is what AIDEA does. There are different mechanisms that are used to foster oil and gas development. He said Amendment 5 would make some sense if there was a period full stop after the words "or a gas lease" and, since it does not, he cannot support it.

[3:26:32 PM](#)

MR. PARADY stated that, regardless of the outcome here, AIDEA would be glad to work with committee members to vet the language. He said he does not want to lose another period of time while moving to the close of the legislative session. It is the legislative discretion of committee members as to whether it is the withdrawal, redrafting, and bringing of the amendment back in another form, or adopting and then fixing. However, in his experience, it is usually best to get it right.

REPRESENTATIVE JOHNSON pointed out that the next committee of referral for HB 105 is the House Rules Standing Committee [of which he is the chair] and he is not bashful about fixing legislation and problems in that committee.

REPRESENTATIVE TARR said she maintains her objection to Amendment 5 based on the problems brought up. Saying it sounds like there is an opportunity to rework the wording, she asked whether the maker of the amendment has a comment on that.

REPRESENTATIVE HAWKER stated he thinks this committee needs to put on the record its absolute statement about not acquiring

assets in the Cook Inlet, through either leasing or working interest ownership, to support the Interior Energy Project. The chairman of the House Rules Standing Committee has said he will not let HB 105 out of that committee without ensuring the issue is fixed to the satisfaction of AIDEA. He assured the folks at AIDEA that this issue will be resolved before the bill gets to the House floor.

REPRESENTATIVE JOHNSON pointed out that as of today the legislature is under the 24-hour rule.

REPRESENTATIVE TARR maintained her objection, saying she is not on the House Rules Standing Committee and will therefore not have an opportunity to weigh in on this amendment.

[3:29:08 PM](#)

A roll call vote was taken. Representatives Herron, Hawker, Johnson, Olson, Nageak, and Talerico voted in favor of Amendment 5. Representatives Seaton, Josephson, and Tarr voted against it. Therefore, Amendment 5 was adopted by a vote of 6-3.

[3:29:59 PM](#)

REPRESENTATIVE HAWKER moved to adopt Amendment 6, labeled 29-GH1019\H.4, Shutts, 3/28/15, which read:

Page 5, line 4, following "Alaska":

Insert ", if the Alaska Industrial Development and Export Authority prepares a project plan and receives legislative approval of the plan. The project plan must

- (1) identify the source of the natural gas;
- (2) include the estimated cost of the project; and
- (3) include the estimated price of natural gas under the project for natural gas utilities in Fairbanks before distribution to consumers"

REPRESENTATIVE SEATON objected for purposes of discussion.

[3:30:05 PM](#)

REPRESENTATIVE HAWKER said Amendment 6 is about the legislature maintaining power of appropriation and wanting to know exactly what it is buying before writing the check, as well as knowing how many more checks will need to be written after that first

one. The amendment specifically adds a legislative sanctioning requirement before AIDEA can access the sustainable energy transmission and supply development (SETS) bonding authorization that is provided in the bill. The amendment makes no change in the authority for AIDEA to move forward with the SETS funded projects. Because there are so many unknowns - from regulatory authority to rate protection to ownership to security interest - he would like to have the project plan brought to the legislature for approval. Amendment 6 requires AIDEA to develop a project plan before the project can go forward and that project plan must receive legislative approval, which is very much as the legislature did with the original project plan for AGDC. Amendment 6 requires three things that must, at a minimum, be included in the plan: the source of the gas, cost of the project, and the price for that gas under the project for the utilities in Fairbanks before distribution to consumers. This will provide a sound basis for ensuring that this is a consumer cost-driven project and the legislature would like to make that decision and judgement about having met that cost objective before it invests more. Over \$12 million was spent on the North Slope, which is either going to have to be written off or recovered in some manner. That \$12 million of write-off might have been avoided had there been a sanctioning requirement for that first time around. It is important to have a project that goes forward that meets the price expectancy/demand that the community has insisted upon, and he also wants to know how many more checks the legislature will have to write to accomplish that. According to testimony at the committee's last meeting, this money is just the tip of the iceberg; a great deal more government support will be needed to make this project work and bring gas to all consumers at the price objective. It must be ensured the legislature is helping the folks in Fairbanks and that proper decisions are made to preclude falling victim to having an agency that wants a project for a project's sake that does not accomplish the goals the legislature wants to establish as policy direction for it. He said he doesn't want to micromanage the process, but wants that policy box provided for AIDEA to put this together and come back to talk to the legislature about the alternatives AIDEA is studying before the legislature authorizes the spending of hundreds of millions of dollars. He urged committee members to support Amendment 6.

[3:34:28 PM](#)

REPRESENTATIVE JOSEPHSON stated Amendment 6 is the amendment that gives him the greatest concern. He said there is danger in any member being a purist and saying to monitor this sort of

expenditure or to keep hands off in trust of the authority. Senate Bill 23 was the previous administration's concept. It didn't work and AIDEA did the responsible thing when it said it cannot get there at the right burner tip price and is abandoning that. He said he doesn't know what the alternative is. If the belief is in natural gas for the Interior, stopping the nonattainment problem, and keeping an economy going so people aren't fleeing the city and the borough for lack of ability to stay there, he hasn't heard of anywhere else to get gas and so Cook Inlet is being looked at pending a large gasline. Comparison was made to the Alaska Gasline Development Corporation (AGDC) and the Alaska LNG Project, but that is up to a \$65 billion project and a very different kind of thing. Lost money on the North Slope with the LNG trucking is a real issue. When it comes to these megaprojects there is no question that a better system is needed to be able to put on the brakes before the money goes out the door. But, if the committee is going to have a discussion about lost and sunk costs, it will be here all day. In the three years he has been in the legislature he has seen so much spent and some legislators think it would have been wiser spent in a classroom, for example. Regarding the cost, he said AIDEA will hear from the consumer just as it did with the LNG trucking. He noted that in his community there is a fair amount of subsidizing, either real or effective, of natural gas; for example, [the state] does not tax gas in the Cook Inlet. He expressed his concern that AIDEA is being hamstrung. Further, he queried, what happens if AIDEA determines on, say, April 20, 2016, that it has the package together but the legislature has adjourned? Amendment 6 is too limiting.

[3:37:34 PM](#)

REPRESENTATIVE TARR recalled that the other day's PowerPoint presentation explained it is a phased approach. Through each step there is a go or no-go decision; AIDEA got to the final stage and made a no-go decision on that. In other projects it has worked on, the legislature hasn't expected that kind of work to be done without any dollars being spent. It is a real shame in regard to all the money that has been spent on projects that will not go forward. At the same time, the legislature did originally authorize \$250 million for the project and if \$12 million was spent to get to the decision, then not too much was eaten up. She questioned whether AIDEA will be able to act effectively with two amendments that require legislative approval given that they would not necessarily happen at the same time. She expressed her concern that Fairbanks could be on the verge of collapse given [the state's] current situation and

potential job losses in the Fairbanks area, coupled with the already-high energy prices. Some people are paying as much per month for heating cost as for their mortgage. She offered her appreciation for the legislature having oversight on what is happening and being mindful of the dollars that are spent, but expressed her fear that the Interior won't survive if the amendments push out the project by a year or more.

[3:40:22 PM](#)

CO-CHAIR TALERICO reminded members that his intention is to move HB 105 out of committee today and said the bill likely will not move without these amendments. He further noted the bill has two more committees of referral.

CO-CHAIR NAGEAK stated there is a lot of institutional knowledge within the Capitol building that committee members can draw upon and not have to worry about doing something wrong. The people with this knowledge can help members get through this process. Those members involved in natural resource issues have been through a lot and have the knowledge and experience. He added that it is good to have different points of view.

REPRESENTATIVE SEATON commented he is unsure how someone would negotiate to get natural gas if it cannot be used as collateral or as a working interest ownership to provide a source of revenue on that gas. A contract cannot be offered because it must come back to the legislature for approval of the program. He said he hopes things will get adjusted in the next committee so that the project will be able to move forward rather than being stopped.

[3:43:02 PM](#)

REPRESENTATIVE SEATON offered Conceptual Amendment 1 to Amendment 6 as follows: at the end of line 4, after "natural gas", add "or propane". This will make it consistent with the previously adopted amendment.

REPRESENTATIVE HAWKER said he has no objection to the conceptual amendment. There being no objection, Conceptual Amendment 1 to Amendment 6 was adopted.

[3:43:28 PM](#)

MR. PARADY recalled the maker of the amendment stating in his opening remarks his desire that the legislature discuss openly

and thoroughly the policy box while not micromanaging inside that box. However, that is exactly what Amendment 6 does, Mr. Parady said. He stated six reasons for opposing Amendment 6. First, it will cause substantial delay, particularly in dealing with the nonattainment status for the Environmental Protection Agency (EPA) in the Interior region. Second, it will chill the private investment community as AIDEA works with members of the private investment community to carry forward as it did on the North Slope project for the public/private partnership. The holders of the private capital will have no certainty as to if or when AIDEA will have access to the Senate Bill 23 funding tools that were provided and allow AIDEA to partner with private developers. Third, it undermines the statutory authority of the AIDEA board to make investment decisions based on AIDEA's well-established due diligent process investment criteria. There has not been a write-off of an AIDEA loan in a 12-year period. Fourth, it forces the Interior to get a second legislative authorization to expend the financing tools that were already authorized by the legislature in 2013. Fifth, it limits and potentially eliminates any potential North Slope project that AIDEA could currently finance by forcing AIDEA to seek legislative approval of any Interior Energy Project, not any Cook Inlet project. Six, it dramatically changes AIDEA's Interior Energy Project role in the middle of developing the project. Horses are being changed in the middle of the stream here. Make no mistake about it, he said, the commitment that everyone shares to the Interior project is substantially delayed by this amendment. The legislature assigned AIDEA this project and this amendment moves to handcuff AIDEA from completing the assignment that AIDEA was given.

[3:45:24 PM](#)

REPRESENTATIVE SEATON maintained his objection to Amendment 6.

A roll call vote was taken. Representatives Olson, Herron, Hawker, Johnson, Nageak, Talerico, and Seaton voted in favor of Amendment 6, as amended. Representatives Josephson and Tarr voted against it. Therefore, Amendment 6, as amended, was adopted by a vote of 7-2.

[3:46:41 PM](#)

REPRESENTATIVE HAWKER moved to adopt Amendment 7, labeled 29-GH1019\H.10, Shutts, 4/7/15, which read:

Page 4, following line 15:

Insert new bill sections to read:

*** Sec. 4.** AS 44.88.170(a) is amended to read:

(a) **Except as provided in (c) of this section, nothing** [NOTHING] in this chapter prevents the inclusion in a lease or other agreement relating to a project of a provision granting the right to purchase the project, or to renew or extend the lease or agreement, upon the terms and conditions **that** [WHICH] may be provided for in the lease or agreement.

*** Sec. 5.** AS 44.88.170 is amended by adding a new subsection to read:

(c) The authority may not negotiate or enter into a gas supply contract with a natural gas producer unless

(1) the contract is between a natural gas producer and natural gas distribution utility that is owned by the authority or a subsidiary corporation of the authority and the contract is for the natural gas producer to provide the utility, and only the utility, with a natural gas supply for distribution to customers of the utility; or

(2) the authority obtains legislative approval."

Renumber the following bill sections accordingly.

REPRESENTATIVE TARR objected.

[3:46:47 PM](#)

REPRESENTATIVE HAWKER said Amendment 7 is about his concern in regard to keeping the state from a role of picking winners and losers in the marketplace. He said the amendment specifically prohibits AIDEA from negotiating and entering into a gas supply agreement unless that agreement or agreements are between an AIDEA-owned utility and a producer. For example, if AIDEA is successful in purchasing FNG and becomes a local distribution company in Fairbanks, AIDEA will need to be able to procure gas from a producer or a supplier in some way to ensure AIDEA has gas to distribute in the utility that the state is buying. However, Amendment 7 makes the statement that the legislature does not want to have AIDEA interfering in a gas market on behalf of the specific utilities that would be benefitting from the Interior Energy Project to the disadvantage of all the other public utilities that are competing in that marketplace for that same gas in the Cook Inlet and having to negotiate the same contracts with the same suppliers. The Cook Inlet gas market is not the robust and endless market it was 40 years, it is a very

fragile market dependent on continued investment by smaller companies, not companies with deep pockets. It is a market that is very susceptible and sensitive to changes of policy that the legislature might make in its tax structures or circumstances. The legislature does not want the heavy hand of government advocating on behalf of one group of consumers to the disadvantage of other consumers. One branch of government does carry with it the weight of all the ability of other branches of government to bring its decision-making ability to coerce actions from producers and players. "It's not that AIDEA is going to go out there and intimidate sellers," he said, "but ... sellers are, in fact, intimidated because there are other state agencies that might well take a look at a decision they make and say 'well, we're going to get even with you guys for making that decision.'" That is something the legislature must keep from occurring. Amendment 7 says to let the utilities negotiate on behalf of themselves for their gas, keep government out of those negotiations so there is no appearance of conflict or coercive activity between the state's agencies. Nothing in Amendment 7 precludes the utilities from the Interior Energy Project banding together and being a collective marketing force into the Cook Inlet. He urged committee members to support Amendment 7.

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REPRESENTATIVE SEATON noted Amendment 6 includes a process that before the project plan goes forward a source of natural gas must be identified. Yet, he continued, AIDEA is precluded from negotiating any source of natural gas. He surmised the idea is that somebody else has to negotiate that and then come to AIDEA and then AIDEA can try to put together a project plan to bring to the legislature for approval. He requested clarification.

REPRESENTATIVE HAWKER replied it is unknown whether this project is going to be totally owned by AIDEA or a project in which AIDEA's role is to benefit the utilities. When it started out it was just supposed to be benefitting the utilities, but this legislative session it was suddenly announced that AIDEA was going to start buying assets without any explanation of what had changed. Nothing in Amendment 7 prevents a project from going forward with AIDEA facilitating and helping all of those utilities with the financing for transactions put together by the utilities. It should not be the State of Alaska stepping in and deciding to become the local distribution company procuring an asset literally from the producer all the way to the burner tip. He said this is not something he wants to give blanket approval to AIDEA to do. However, if that is the project plan

and it comes back to the legislature in the project plan with the constraints of Amendment 6, then the legislature gets to make that decision, and if it is the right decision, so be it. He reiterated he is going under the premise that AIDEA is facilitating and aiding Alaska's industry to achieve success rather than stepping in and competing in the private sector. The legislature doesn't want AIDEA displacing private sector entities. He said he knows of at least three commercial entities that have offered gas out of the Cook Inlet to the utilities in Fairbanks. The utilities should have a chance to look at those commercial private sector entities to see if it would work and then the utilities would go to AIDEA and ask for help in financing and other help for making it be a viable project. That is the role of AIDEA, in his opinion, not stepping in and owning projects. While it is a good thing that AIDEA hasn't written off a loan in 12 years, there is also a horrible long history of when AIDEA steps in and starts owning physical assets that there have been problems.

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REPRESENTATIVE TARR noted [Sections 4 and 5 of Amendment 5] set out parameters in AS 44.88.170 and AS 44.88.170(a) that AIDEA may not purchase or acquire gas reserves or a gas lease or become a working interest owner of a natural gas lease unless it receives legislative approval. She observed that Amendment 7 makes changes to these previously adopted sections. She asked whether [paragraphs (1) and (2) of subsection (c), lines 10-16, of Amendment 7] are supposed to both be the requirements now.

REPRESENTATIVE HAWKER responded correct.

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MR. PARADY said Amendment 7 continues in the same vein as Amendment 6 in requiring legislative approval, which introduces great elements of delay. The maker of the amendment stated in his opening remarks that he didn't want the picking of losers and winners in the marketplace. The marketplace has picked those losers and they are the citizens of Fairbanks. Displayed on the wall of the Fairbanks Economic Development Corporation is a front page of the Fairbanks Daily News Miner from 1954 that says gas is coming to Fairbanks. While that gas was propane, not LNG, the gas is still waiting 61 years later. This project is as close as it has ever been to getting to achieve the goal; AIDEA has worked diligently to bring the project forward. This is a familiar restriction or micromanagement; AIDEA is trying to

do what the legislature asked it to do and will continue to do so as it works together with the legislature.

REPRESENTATIVE JOSEPHSON stated if he was one of the 90,000 residents of the North Slope Borough he would be very concerned about what the committee is doing today and would express no confidence that the state as an entity is continuing to maintain the same objectives and the same goals. The committee has essentially neutered the agency, he said, and he is concerned.

CO-CHAIR TALERICO commented that this committee is not the end-all for this bill. Many more people will see the bill and be working on it, he added, which is a good thing and what the legislative process is all about.

REPRESENTATIVE SEATON expressed his concern that the committee has gotten so into the restrictions on the ability for this project to go forward that he doesn't think it will go forward. He said he doesn't think the utilities will really be able to negotiate because they don't know where their partner is and everything must come back for legislative approval before any funds can be set up or anything else for equalizing those utility rates over time. There are the gas contracts and who is going to be able to do it. A project comes forward but the project is not really an AIDEA project, it is a project from the utilities, but AIDEA must bring the project to the legislature for approval before it can go forward. Thus he is unsure where it is going any more, the complications are extreme.

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REPRESENTATIVE HAWKER said Amendment 7 is being mischaracterized because it is the big parameters of the box that are being talked about. It is not micromanaging inside the box, it is defining the box. The box is that government should not be messing in the marketplace. Nothing in Amendment 7 impedes the utilities in Fairbanks from procuring gas for themselves. All the amendment says is that the legislature doesn't want the state negotiating those contracts on behalf of those utilities and unfairly advantaging them against other folks competing in the open market for that same gas. Nothing in Amendment 7 impedes the kind of project that this is supposed to be, which is that AIDEA's role is providing assistance to the community of Fairbanks to get Fairbanks a local distribution structure around gas that is able to be delivered at \$15 per MCF at the burner tip. He said he doesn't think any [legislators] are quite buying into wanting the state to be carrying the entire burden

of ownership of the project; local control is wanted, not making Fairbanks a permanent protectorate of the state and AIDEA in order to meet these objectives.

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REPRESENTATIVE TARR maintained her objection to Amendment 7.

A roll call vote was taken. Representatives Johnson, Olson, Herron, Hawker, Nageak, and Talerico voted in favor of Amendment 7. Representatives Seaton, Josephson, and Tarr voted against it. Therefore, Amendment 7 was adopted by a vote of 6-3.

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CO-CHAIR TALERICO stated he thinks the legislative process is appropriate and HB 105 will move on to its other committees of referral. He said he would like to entertain a motion to move the bill from committee.

REPRESENTATIVE TARR said she will not object to the bill moving out of committee because it is so important. However, she continued, what has been done today caused a lot of damage. She expressed her discomfort with the limitations that have been put on, especially following previous legislation that authorized AIDEA for \$275 million to move forward on this project and now there is back tracking on that initiative. This is sending the wrong message to the people of Fairbanks and the Interior who have been disproportionately burdened by high energy costs. She offered her hope that the bill will be improved as it is moved along.

REPRESENTATIVE HAWKER took issue with Representative Tarr's statements, saying he has family in Fairbanks and wants to see the right thing done for Interior Alaska, not the wrong thing happening in [the legislature's] best efforts to do the right thing and that is what it is about today.

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REPRESENTATIVE HAWKER moved to report HB 105, as amended, out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, HB 105(RES) was reported from the House Resources Standing Committee.

The committee took an at-ease from 4:04 p.m. to 4:07 p.m.

4:07:01 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 4:07 p.m.