

**ALASKA STATE LEGISLATURE  
HOUSE RESOURCES STANDING COMMITTEE**

June 1, 2016  
11:08 a.m.

**MEMBERS PRESENT**

Representative David Talerico, Co-Chair  
Representative Bob Herron  
Representative Craig Johnson  
Representative Kurt Olson  
Representative Paul Seaton  
Representative Andy Josephson  
Representative Geran Tarr  
Representative Mike Chenault (alternate)

**MEMBERS ABSENT**

Representative Benjamin Nageak, Co-Chair  
Representative Mike Hawker, Vice Chair

**COMMITTEE CALENDAR**

HOUSE BILL NO. 246

"An Act creating the oil and gas infrastructure development program and the oil and gas infrastructure development fund in the Alaska Industrial Development and Export Authority; relating to the interest rates of the Alaska Industrial Development and Export Authority; relating to the sustainable energy transmission and supply development and Arctic infrastructure development programs of the Alaska Industrial Development and Export Authority; relating to dividends from the Alaska Industrial Development and Export Authority; and adding definitions for 'oil and gas development infrastructure' and 'proven reserves.'"

- MOVED CSHB 246(RES) OUT OF COMMITTEE

**PREVIOUS COMMITTEE ACTION**

BILL: HB 246

SHORT TITLE: AIDEA: FUNDS; LOANS; PROGRAMS; DIVIDEND

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(H)	READ THE FIRST TIME - REFERRALS
01/19/16	(H)	RES, FIN
02/12/16	(H)	RES AT 1:00 PM BARNES 124

02/12/16	(H)	<Bill Hearing Canceled>
03/10/16	(H)	RES AT 1:00 PM BARNES 124
03/10/16	(H)	-- MEETING CANCELED --
03/16/16	(H)	RES AT 1:00 PM BARNES 124
03/16/16	(H)	Heard & Held
03/16/16	(H)	MINUTE(RES)
05/23/16	(H)	FOURTH SPECIAL SESSION BILL
05/23/16	(S)	FOURTH SPECIAL SESSION BILL - WITH PASSAGE OF HCR 401
05/27/16	(H)	RES AT 11:00 AM BILL RAY CENTER 208
05/27/16	(H)	Heard & Held
05/27/16	(H)	MINUTE(RES)
05/28/16	(H)	RES AT 10:00 AM BILL RAY CENTER 208
05/28/16	(H)	Heard & Held
05/28/16	(H)	MINUTE(RES)
05/30/16	(H)	RES AT 11:00 AM BILL RAY CENTER 208
05/30/16	(H)	-- MEETING CANCELED --
05/31/16	(H)	RES AT 11:00 AM BILL RAY CENTER 208
05/31/16	(H)	-- MEETING CANCELED --
06/01/16	(H)	RES AT 11:00 AM BILL RAY CENTER 208

**WITNESS REGISTER**

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:** On behalf of the governor, answered questions related to HB 246.

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

**POSITION STATEMENT:** On behalf of the governor, answered questions related to HB 246.

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

**POSITION STATEMENT:** On behalf of the governor, answered questions related to HB 246.

JERRY JUDAY, Senior Assistant Attorney General  
Labor and State Affairs Section

Civil Division (Anchorage)  
Department of Law (DOL)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions related to HB 246.

**ACTION NARRATIVE**

[11:08:44 AM](#)

**CO-CHAIR DAVID TALERICO** called the House Resources Standing Committee meeting to order at 11:08 a.m. Representatives Tarr, Herron, Johnson, Seaton, Josephson, Chenault (alternate), and Talerico were present at the call to order. Representative Olson arrived as the meeting was in progress.

**HB 246-AIDEA: FUNDS; LOANS; PROGRAMS; DIVIDEND**

[11:09:21 AM](#)

CO-CHAIR TALERICO announced that the only order of business is HOUSE BILL NO. 246, "An Act creating the oil and gas infrastructure development program and the oil and gas infrastructure development fund in the Alaska Industrial Development and Export Authority; relating to the interest rates of the Alaska Industrial Development and Export Authority; relating to the sustainable energy transmission and supply development and Arctic infrastructure development programs of the Alaska Industrial Development and Export Authority; relating to dividends from the Alaska Industrial Development and Export Authority; and adding definitions for 'oil and gas development infrastructure' and 'proven reserves.'"

[11:10:18 AM](#)

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), related that the administration would not be opposing any of the amendments that will be offered today to HB 246. The administration is supportive of the committee reporting the bill and understands from the committee aide that there will likely be some stylistic changes as a committee substitute (CS) is produced. This will be the first CS of the bill and since it was legislation from the governor drafted by the Department of Law (DOL), he understands that quite often the drafters at Legislative Legal and Research Services in order to

conform things to the legislative style make some changes and the administration anticipates that this will not be anything of substance.

[11:11:23 AM](#)

CO-CHAIR TALERICO inquired whether committee members have any questions before beginning the amendment process.

REPRESENTATIVE JOSEPHSON, regarding the aforementioned statement that the administration is broadly receptive to the amendments, asked whether the administration has any concern with any single amendment.

MR. THERRIAULT replied that the Alaska Industrial Development and Export Authority (AIDEA) tries to be very protective of its latitude, its authority, but understands it is the legislature's prerogative to put limitations on the entity as the legislature creates tools for the entity to use. A number of the amendments [that will be offered] would put on some sideboards and AIDEA's default preference would be that it be left to AIDEA's board of directors to make class for the entity.

[11:13:06 AM](#)

REPRESENTATIVE HERRON moved to adopt Amendment 1, labeled 29-GH2613\A.1, Shutts, 5/28/16, which read:

Page 6, lines 26 - 28:

Delete ", money or other assets transferred to the fund by a majority vote of the members of the authority under AS 44.88.050 from any other fund controlled by the authority,"

REPRESENTATIVE TARR objected.

REPRESENTATIVE HERRON explained Amendment 1 addresses a concern raised at the committee's last meeting. The amendment language was suggested by Mr. Therriault and that is why he is proposing and supporting Amendment 1.

[11:13:38 AM](#)

REPRESENTATIVE SEATON inquired whether removing this language would create a problem for conduit financing, such as blocking any fees from being established or that come through conduit financing from being deposited into this fund.

MR. THERRIAULT responded that when he asked AIDEA's executive director about this concern, Mr. Springsteen indicated that passage of Amendment 1 would not preclude the conduit financing. If that activity were to go on, those fees would be able to come into the entity without being impaired. Responding further to Representative Seaton, he confirmed that the amendment would not impact the fees or the ability of AIDEA to do conduit financing.

[11:14:54 AM](#)

REPRESENTATIVE TARR requested examples of the type of transfer that would occur if this language were left in the bill.

MR. THERRIAULT answered that to his knowledge the AIDEA board has not transferred money between the funds. He recalled Mr. Springsteen as having said that the transfer of funds from the revolving loan fund is precluded and deferred to Mr. Springsteen to answer the question further.

JOHN SPRINGSTEEN, Executive Director, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), replied that [retaining] this language would vulcanize the fund, so there would not be the ability to move in or out other funds within AIDEA. The sustainable energy transmission and supply (SETS) development fund and the Arctic infrastructure fund are unfunded and there has not been activity by the AIDEA board to move in between the separate funds. He offered his understanding that the revolving [loan] fund is precluded from transferring funds outside of the revolving fund.

REPRESENTATIVE TARR understood that the [SETS and Arctic infrastructure] funds have not been capitalized and surmised that the proposed oil and gas infrastructure development fund would not be capitalized unless there is some appropriation that goes to it. She further understood that the 14 percent portion of the revolving loan fund that is already in oil and gas infrastructure loans would stay in the revolving loan fund through the life of each particular loan, and these loans would not ever be transferred into the new fund that would be created under HB 246.

MR. SPRINGSTEEN responded correct.

[11:17:02 AM](#)

REPRESENTATIVE JOSEPHSON understood that deleting this language would not have any net effect on AIDEA's operation as a practical matter in terms of AIDEA's operation, the flexibility with which it makes its investment decisions.

MR. SPRINGSTEEN answered, "As of today, no."

[11:17:35 AM](#)

REPRESENTATIVE SEATON stated that he understood the purpose for establishing the oil and gas infrastructure development fund to be so AIDEA does not become over-weighted in one sector within the revolving loan fund. He requested Mr. Springsteen to provide an example of where AIDEA would use the ability to transfer between funds. He surmised that if AIDEA cannot take money out of the revolving loan fund to capitalize any of the other funds, then the only direction possible is to take money out of the [proposed] fund to capitalize another fund or take money out of the Arctic infrastructure fund to capitalize the proposed fund. He asked if that would change the sector mix that has been established by setting these separate funds to be sector specific.

MR. SPRINGSTEEN agreed with Representative Seaton that the amendment would isolate this fund as solely for oil and gas infrastructure development and funds could not be moved between the Arctic infrastructure, SETS, and oil and gas infrastructure development programs.

[11:19:09 AM](#)

REPRESENTATIVE TARR surmised that given this language was in the bill originally, there must have been some thinking that this could be a tool at some point in the future. She asked whether something could start out in the Arctic infrastructure fund, for example, but then later becomes more clearly an oil and gas infrastructure project where AIDEA might transfer it and that would open up opportunity in the Arctic infrastructure fund.

MR. SPRINGSTEEN responded it goes to flexibility within the funds, or lack of, and who makes the decision. If down the road there were appropriations into the SETS, Arctic infrastructure, and oil and gas infrastructure development funds, would that decision to move funds rest more on the legislature? This would clearly put it at the discretion of the legislature, and it would be necessary to come back and ask for an appropriation to "move those between the different funds."

[11:20:36 AM](#)

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

[11:20:57 AM](#)

REPRESENTATIVE CHENAULT moved to adopt Amendment 2, labeled 29-GH2613\A.12, Shutts, 5/30/16, which read:

Page 7, line 24:

Delete "engineer or other technical expert, as the authority determines is"

Insert "attorney, bond counsel, engineer, or other technical expert"

Page 7, lines 26 - 28:

Delete "(5) with the approval of the attorney general, contract for the services of an attorney or bond counsel as the authority determines is necessary to fulfill the purposes of the program"

Renumber the following paragraph accordingly.

REPRESENTATIVE TARR objected for discussion purposes.

REPRESENTATIVE CHENAULT explained Amendment 2 attempts to mirror existing language in the SETS and other funds. Noting the AIDEA board has made those decisions since it was initiated, he said he has concerns with the provision that the board must go through an attorney general to contract for services of another attorney or bond counsel. Amendment 2 would eliminate one more piece of the pie where someone other than AIDEA may have control over the projects that AIDEA is working on. Requiring the attorney general to approve contracts is an unnecessary step.

[11:22:20 AM](#)

The committee took a brief at-ease.

[11:23:18 AM](#)

REPRESENTATIVE SEATON observed Amendment 2 proposes to delete the language "as the authority determines is necessary". He said he wants to be clear that this is just cleanup language and

would not change who is determining - the [AIDEA] board would still be in charge of making that decision.

REPRESENTATIVE CHENAULT answered that the intent is for the [AIDEA] board to be able to make those decisions on its own.

[11:24:21 AM](#)

REPRESENTATIVE JOSEPHSON asked whether AIDEA currently needs the approval of the attorney general to contract for services of an attorney.

FRED PARADY, Deputy Commissioner, Office of the Commissioner, Department of Commerce, Community & Economic Development (DCCED), replied no.

MR. SPRINGSTEEN suggested that Mr. Jerry Juday be allowed to answer the question.

JERRY JUDAY, Senior Assistant Attorney General, Labor and State Affairs Section, Civil Division (Anchorage), Department of Law (DOL), noted that he is representing AIDEA.

REPRESENTATIVE JOSEPHSON asked whether, since its inception, the AIDEA board simply has a motion where the board approves the hiring of counsel when counsel is needed.

MR. JUDAY replied that currently AIDEA does hire outside counsel through the Department of Law, and this is how it has worked since AIDEA was established. He stated that Amendment 2 would match language to what is in the SETS bill and, he believes, the Arctic infrastructure bill. If he understands the intent of the amendment, the expectation is to give flexibility potentially to the board to not go to the Department of Law if the board chose to make its own selection.

[11:26:17 AM](#)

REPRESENTATIVE TARR understood that under Amendment 2, paragraph (4) [on page 7 of the bill] would deal with the different types of professional advisors that might be necessary, and paragraph (5) would say that it would not be necessary to have the approval of the attorney general for those same services.

REPRESENTATIVE CHENAULT responded correct.

[11:27:01 AM](#)

REPRESENTATIVE TARR removed her objection to Amendment 2. There being no further objection, Amendment 2 was adopted.

11:27:16 AM

REPRESENTATIVE SEATON moved to adopt Amendment 3, labeled 29-GH2613\A.10, Shutts, 5/28/16, which read:

Page 8, line 11, following "than":  
Insert "(A)"

Page 8, line 12, following "or":  
Insert a new subparagraph to read:  
"(B) \$100,000,000; or"

CO-CHAIR TALERICO objected for discussion purposes.

REPRESENTATIVE SEATON explained Amendment 3 would place an upper limit on how much financing AIDEA can provide a single project before AIDEA is required to come to the legislature for approval. He noted that current language in the bill would require legislative approval for loan guarantees [exceeding] \$25 million, but there would be no limit on the amount of a direct loan that AIDEA could give before legislative approval was required. He posited that since the bill is setting up a fund and a process and would set limits on loan guarantees, then there should be something similar for direct loans.

REPRESENTATIVE SEATON inquired whether there is any interaction between loan guarantees and full financing.

MR. TERRIAULT answered that yesterday AIDEA representatives met with Mr. Deven Mitchell [state investment officer, Department of Revenue], who indicated there is no link between the loan guarantee and the maximum dollar amount for the loans. "There had been the suggestion that the loan guarantees are limited to like a 10 percent or there was some kind of a ratio," he continued, "but Mr. Mitchell said there really isn't." As the bill is currently written, AIDEA could participate in lending on a project, but could not go over 50 percent of the total cost of the project. Amendment 3 would provide a hard dollar upper ceiling and if AIDEA wanted to engage in financing beyond that it would have to get prior legislative approval.

REPRESENTATIVE SEATON clarified Amendment 3 would allow AIDEA to loan up to 50 percent of a \$200 million project or 25 percent of

a \$400 million project. It would limit the exposure of AIDEA as a dollar amount without legislative approval; AIDEA could not exceed the 50 percent cap, but it could be less than the 50 percent cap.

MR. THERRIAULT confirmed the aforementioned is correct; at 50 percent AIDEA's participation could be \$100 million for a \$200 million project. He added that the loan guarantee is a separate hard dollar limit of \$25 million, and if AIDEA wanted to do a loan guarantee beyond \$25 million it would have to get prior legislative approval.

REPRESENTATIVE SEATON pointed out that if AIDEA were to do a 25 percent loan, not a 50 percent loan, it could participate on a \$400 million project by loaning \$100 million.

MR. THERRIAULT confirmed that this is right.

[11:31:08 AM](#)

REPRESENTATIVE HERRON noted he is not opposed to the amendment, but asked why \$100 million.

REPRESENTATIVE SEATON responded that the purpose of HB 246 is to provide AIDEA the ability to loan to oil and gas infrastructure. If legislators are trying to limit the exposure of the state without legislative approval, then it seems to him that limiting loan guarantees to \$25 million conflicts with there not being a limit on the amount of a direct loan that AIDEA could bond for. He said \$100 million seems a reasonable figure for a limit without legislative approval.

REPRESENTATIVE HERRON stated he thinks it important to have this on the record because there could be in the future a legislature that says \$100 million is too high or vice versa. He posited that \$100 million is a benchmark that the committee is not sure is the right number.

REPRESENTATIVE SEATON responded correct, it is a benchmark to establish where legislative approval would come in and it could always be modified by a future legislature.

[11:33:12 AM](#)

CO-CHAIR TALERICO asked whether Mr. Parady or Mr. Therriault has any opposition to Amendment 3.

MR. THERRIAULT noted the maker of the amendment considered a variety of dollar amounts and AIDEA suggested he be as generous as possible given the cost of oil and gas infrastructure. Therefore, AIDEA appreciates the decision for a higher number.

[11:33:40 AM](#)

CO-CHAIR TALERICO removed his objection to Amendment 3. There being no further objection, Amendment 3 was adopted.

[11:33:58 AM](#)

REPRESENTATIVE SEATON moved to adopt Amendment 4, labeled 29-GH2613\A.3, Shutts, 5/29/16, which read:

Page 8, lines 15 - 22:

Delete all material and insert:

"(b) The authority may not provide financing for an oil and gas infrastructure development unless all participants in the oil and gas field covenant with the authority that

(1) the authority will not be responsible for costs incurred in connection with dismantlement, removal, or remediation of the oil and gas infrastructure development; and

(2) after the date of the authority's financing commitment, the participants will not take, apply for, or accept a tax credit for expenditures on the oil and gas field under AS 43.20.043, AS 43.55.023, or 43.55.025."

CO-CHAIR TALERICO objected for discussion purposes.

REPRESENTATIVE SEATON explained Amendment 4 would provide language to clarify and ensure that AIDEA cannot be held responsible for dismantlement, removal, or remediation costs of oil and gas development projects.

[11:34:43 AM](#)

CO-CHAIR TALERICO requested Mr. Parady or Mr. Therriault to comment on Amendment 4.

MR. THERRIAULT answered that he talked with Mr. Springsteen and it would not be AIDEA's intent to step in the line of that responsibility. The amendment makes it clear that AIDEA needs to really nail that down before the lending takes place.

11:35:08 AM

REPRESENTATIVE OLSON inquired whether this would also include platform abandonment.

REPRESENTATIVE SEATON replied that if the state does not protect itself on the far end of projects it could be looking at a huge liability that it did not realize it was getting into. The amendment would include [platform] abandonment as well, he said.

11:35:48 AM

CO-CHAIR TALERICO removed his objection to Amendment 4. There being no further objection, Amendment 4 was adopted.

11:36:00 AM

REPRESENTATIVE SEATON moved to adopt Amendment 5, labeled 29-GH2613\A.16, Shutts, 5/31/16, which read:

Page 8, following line 24:

Insert a new subsection to read:

"(d) The authority may not provide financing under AS 44.88.880 if the loan-to-value ratio at the time of financing exceeds 75 percent; the value of proven reserves that are included in the value must be calculated using the lesser of

(1) the average price of oil or gas actually paid during the 12-month period immediately preceding the time of financing, reduced by 10 percent; or

(2) the price of oil or gas forecast by the Department of Revenue for the 12-month period immediately following the time of financing, reduced by 10 percent."

REPRESENTATIVE TARR objected.

REPRESENTATIVE SEATON explained Amendment 5 would make it clear that the language will limit loan financing to loan to value ratio not to exceed 75 percent; the collateral value must exceed the loan and the loan cannot be for more than 75 percent of the value. The way it was written previously, it would be 75 percent or greater, and though it has been interpreted some other ways, that the language actually was backwards and so the amendment clarifies that it cannot exceed that value ratio.

11:37:15 AM

CO-CHAIR TALERICO understood that Mr. Parady and Mr. Therriault had other language and inquired as to how Amendment 5 fits in.

MR. THERRIAULT responded that AIDEA worked with the maker of the amendment after hearing back from the Department of Law as to whether it should be greater than or less than. According to Wikipedia's definition of the loan to value ratio, the higher that ratio the riskier the loan. He said AIDEA is trying to establish a mechanism that is cautious for the entities involved in this type of financing and AIDEA believes this language achieves that.

11:38:04 AM

REPRESENTATIVE SEATON said the other portion of that was to include some language that Representative Hawker had brought up, which was to ensure that on reserves it was not only the existing price of the last year, but if the price is predicted to be dropping that AIDEA would not be valuing it on higher than the predicted price and reduced by 10 percent in both cases. The amendment would reduce the price by 10 percent and the objective is to ensure that the value is 10 percent less. Representative Seaton said he wants to ensure that including that calculation to limit the estimation of price by 10 percent will include the total value of the project and that that is the way that AIDEA would work its calculations.

MR. THERRIAULT pointed out that the language in paragraphs (1) and (2) of Amendment 5 came from discussions AIDEA had with another member of the committee and the attempt was to be conservative. If reserves are to be counted as part of the collateral, AIDEA wants to err on the side of caution in how it values those reserves and this language does that. He said AIDEA suggested it would be best to preserve a little bit of latitude here for AIDEA to flesh this out in the process of regulations, because in valuing the resources there must be subtraction of the lifting cost and depending on where the production is located there may be treatment cost associated with transportation to market. The risk of trying to put a list into statute is not putting something on the list and through regulation AIDEA would come up with a process that ensures AIDEA accounts for all of those costs so that if reserves are used as part of the collateral AIDEA will err on the side of caution.

REPRESENTATIVE SEATON stated the aforementioned is what was needed on the record. It is not just the price of oil times the estimated reserve, but is actually the value for that particular project and not broadly true an entire company.

[11:41:15 AM](#)

REPRESENTATIVE TARR recalled that the committee spent some time in its previous meeting discussing how to perhaps better define the proven reserves portion of this. She said she is trying to confirm there is not language elsewhere that needs to be adjusted. She observed that at the top of page 8 the bill still has the language that in creating the fund a process will be created for confirming the existence of proven reserves sufficient to authorize financing, and therefore the two should work well together.

[11:42:00 AM](#)

REPRESENTATIVE TARR removed her objection to Amendment 5. There being no further objection, Amendment 5 was adopted.

[11:42:17 AM](#)

REPRESENTATIVE CHENAULT moved to adopt Amendment 6, labeled, 29-GH2613\A.13, Shutts, 5/30/16, which read:

Page 8, following line 24:

Insert a new subsection to read:

"(d) The authority may not provide financing for a natural gas pipeline project for transporting natural gas from the North Slope or Cook Inlet to market."

REPRESENTATIVE TARR objected for discussion purposes.

REPRESENTATIVE CHENAULT explained that Amendment 6 is not the amendment proposed by [AIDEA in the document provided in the committee packet entitled, "Proposed ways to address concerns expressed on HB 246]. He said his concern with the amendment put forth by [AIDEA] is that it would exclude any pipeline of a diameter of 30 inches or larger. Amendment 6 is almost verbatim from the SETS fund, which basically says the same thing that "except for a natural gas pipeline project for transporting natural gas from the North Slope or Cook Inlet to market." The amendment originally proposed by [AIDEA] for a pipe size of 30 inches or more was meant to try not to have the ability to fund

a big pipe from the North Slope to Cook Inlet. However, he questioned, could [AIDEA] loan money to somebody who wants to build a 12-inch pipeline from, say, Cook Inlet to Fairbanks? His concern with the 30-inch size originally proposed by [AIDEA] is that the state currently has on the shelf the drawings and plans for a 24 inch, 2,500 pound per square inch (psi) pipeline project. The [amendment proposed by AIDEA] would allow that type of project to go forward, but Amendment 6 would not allow a smaller pipeline to go to, say, Donlin Creek [Gold Mine] if the mine chose to try financing it through AIDEA. Therefore, given these concerns, he is unsure he wants to pass Amendment 6 and would like to talk to [AIDEA] to make sure his interpretation is the same as [AIDEA's], and, if it is, he may then want to reconfigure the amendment for another committee.

[11:45:29 AM](#)

MR. THERRIAULT responded that the maker of the amendment does bring up a legitimate concern. The authority's suggestion for no bigger than 30 inches was to clearly preclude this mechanism from somehow morphing into a tool to build a big pipeline across the state of Alaska. It was not AIDEA's intent, though, that it would preclude production facilities in the Cook Inlet area that would deliver gas to ENSTAR Natural Gas Company's system, because doing that would be technically taking that resource to market. Thirty inches was an arbitrary number with the thinking that that was a sensible way to separate that big export pipeline from something that took place in the state.

REPRESENTATIVE CHENAULT offered his belief that Donlin Creek Gold Mine is talking about running a 16-inch pipeline across 300-plus miles and is looking for its own financing. He inquired whether adopting Amendment 6 would allow AIDEA to loan money on that project if the mine were to seek financing from the authority.

MR. THERRIAULT replied it may be good to remember that this proposed fund is for oil and gas development with associated infrastructure. So, for example, if Donlin Creek Gold Mine was to propose just a pipeline with no oil and gas production, that might be more suited to go to the SETS fund which talks about transmission of resource.

REPRESENTATIVE CHENAULT understood where the 30 inches comes from because some of the places up north use 30-inch pipelines to move gas across the units. He stated that the more he thinks about it the more he is comfortable with "what we have proposed

right now" and if something else changes he will try to get another amendment offered in another committee.

REPRESENTATIVE JOHNSON suggested that if "or Cook Inlet" was taken out of Amendment 6 it would send a signal to the next committee of the intention. While he will yield to the maker of the amendment, he said he wants to make sure that coming out of this committee the intention of not having AIDEA financing a big pipeline would be something that would be appropriate.

[11:48:55 AM](#)

REPRESENTATIVE SEATON noted that "to market" means where it is going to be sold and would therefore mean that a pipeline from any field to a community, such as a Barrow, could not be done under [Amendment 6]. He asked whether the intention is to say no natural gas pipelines would be financed through this or whether it is specific that a big transmission/liquefaction project cannot be financed through this. He posited that the limitation of requiring legislative approval for projects over \$100 million might get to that point anyway. He requested the maker of the amendment to discuss his intent.

REPRESENTATIVE CHENAULT answered that the intent of Amendment 6 is to not allow AIDEA to be able to use this [proposed] fund or the SETS fund to finance a major gas pipeline. He said he is looking at the 30 inches or more size versus the state's 24-inch pipeline project that is sitting on the shelf that in anybody's mind could be considered a big pipe. It does not necessarily have to be 30, 42, or 48 inches; any pipeline traveling 800 miles is considered a large pipe. The intent of the amendment is to not allow AIDEA to use this money in any form or fashion to finance large in-state gas.

REPRESENTATIVE SEATON asked whether Representative Chenault thinks the \$100 million limit without legislative approval would pretty well preclude that.

REPRESENTATIVE CHENAULT replied that while it may give some comfort that the state does not get into a hole too deep, the legislature needs to make clear what AIDEA is able to do with that money and the legislature must be very clear that AIDEA is not allowed to invest in a large in-state gas pipeline. It is nothing against [AIDEA], it is just some concerns that have been had over time with other administrations that the legislature loses control and the last thing he wants to see is the legislature losing control of the powers of purse.

[11:52:40 AM](#)

REPRESENTATIVE TARR drew attention to Section 10 of the bill on page 6, lines 9-10, and noted that this language is from the SETS fund and that it precludes [a loan or loan guarantee] from being used to "purchase or acquire gas reserves or a gas lease or become a working interest owner of a natural gas lease." She understood that what is being contemplated under Amendment 6 is a limitation that Representative Chenault thinks would also be appropriate for the SETS fund. If the intent is to prevent use in that way by either the SETS fund or the oil and gas infrastructure development fund, she inquired whether they both should be included in the amendment.

REPRESENTATIVE CHENAULT responded that he believes the current SETS fund language states: "liquefaction, regasification, distribution, storage, or use of natural gas, except a natural gas pipeline project for transporting natural gas from the North Slope or Cook Inlet to market." The change between SETS and this [proposed] fund is that it would take out liquefaction, regasification, distribution, storage, or other use of natural gas, and insert "the authority may not provide financing for a natural gas pipeline project for transporting natural gas" to or from Cook Inlet. So, it would leave alone the liquefaction and everything that is in SETS and would just mirror the language that is currently in SETS.

[11:54:51 AM](#)

REPRESENTATIVE SEATON inquired whether Amendment 6 would limit all funds under AIDEA, not just the [proposed] oil and gas infrastructure development fund.

REPRESENTATIVE CHENAULT deferred to Mr. Therriault.

MR. THERRIAULT answered that Amendment 6 would be a limitation just for this proposed new fund. The existing limitations on the other funds would be unchanged. He said AIDEA understands Representative Chenault's concern and early on AIDEA indicated it was willing to accommodate whatever limitation language that Representative Chenault wanted to introduce on this matter. He added that AIDEA understands Representative Johnson's concern about the committee indicating anything that impacts the Cook Inlet area, and AIDEA would leave it up to the committee on how it wants to move forward in that regard. But, should the committee decide not to consider this or to consider this with

further modifications, AIDEA would work with Representative Chenault to ensure that ultimately the language is satisfactory.

MR. PARADY addressed Representative Seaton's question by drawing attention to page 6, line 19, of the bill. He pointed out that these are the new sections being added, so they are not germane to the other funds. This is the oil and gas infrastructure development fund and its limitations, which he believes is what the committee is seeking.

[11:56:42 AM](#)

REPRESENTATIVE JOSEPHSON asked whether the concern with the friendly amendment from Representative Johnson is that it could preclude AIDEA's assistance for bringing natural gas to North Slope communities or the Interior from the north to the south. If that is not the concern, he continued, then he does not know why that friendly amendment would not work.

REPRESENTATIVE JOHNSON replied that his intent is to ensure that AIDEA does not finance a big pipeline from the North Slope to Cook Inlet. He said Representative Seaton brings up a good point - he would not want to keep anyone from using that gas and buying that gas. However, his main concern, like Representative Chenault's, is that there are already enough agencies involved in a big pipeline project.

[11:57:45 AM](#)

REPRESENTATIVE CHENAULT inquired whether the proposed oil and gas infrastructure development fund would be used for a gas pipeline transportation project.

MR. THERRIAULT responded that the proposed fund is focused on production of oil and gas, but as oil and gas is produced it needs to be transported to either a processing facility or something of that nature. In the Cook Inlet the gas is clean enough that it does not need to be processed, and when it touches the ENSTAR Natural Gas Company system that is taking it to market, and that would be allowed. If somebody came with solely a pipeline project, there might be a little difficulty and suggestion that maybe that project should instead go to the SETS fund, which is geared towards transmission of resource.

[11:58:57 AM](#)

REPRESENTATIVE HERRON expressed his concern on Cook Inlet to market because, though it is unlikely that the Donlin Creek Gold Mine would seek financing from AIDEA, the gasline to the mine project could potentially have excess capacity and that excess capacity could be gas for an electrification project to power part of the Kuskokwim. Therefore, he posited, it is important this amendment be crafted correctly.

[11:59:52 AM](#)

REPRESENTATIVE CHENAULT withdrew Amendment 6, stating he prefers to have more discussion about the amendment.

[12:00:24 PM](#)

CO-CHAIR TALERICO noted there are no more amendments for HB 246 at this time. He invited further discussion among the members.

REPRESENTATIVE JOHNSON opined that he has always had concern about the proliferation of AIDEA because the projects AIDEA has been involved in have been political decisions as opposed to economic decisions, such as grain terminals and a fish plant in Anchorage that has no landing of fish. A recent example is that [the legislature] asked for AIDEA's assistance in evaluating the purchase of the "716 Fourth Avenue property" and he understood that [AIDEA] was told to pull out. Referring to [slide 13 of AIDEA's PowerPoint presentation to the committee dated 3/16/16], he inquired where in the decision tree the AIDEA board decided to pull out and no longer assist in evaluating the acquisition of that property. He further asked whether that was a political decision or one made by the board through its decision tree.

MR. PARADY brought attention to Phase 1 of the decision tree process which includes submission of the proposal description, sponsor information, estimated costs, timing, and anticipated AIDEA participation. He believed that a proposal did not come before the AIDEA board in that context and deferred to Mr. Springsteen to elaborate further.

MR. SPRINGSTEEN stated AIDEA never received a formal request for AIDEA to participate in this project.

REPRESENTATIVE JOHNSON inquired why the AIDEA representative was pulled from the discussion and asked how that come about. Responding to Mr. Springsteen, he related that Mark Davis [AIDEA's chief infrastructure development officer] was asked to do some analysis and then Mr. Davis was told he could no longer

participate. Representative Johnson asked where in the decision process that came from.

MR. SPRINGSTEEN answered that Mr. Davis had a conflict of interest because he is married to a legislator.

REPRESENTATIVE JOHNSON asked whether anyone was asked to replace Mr. Davis to assist the legislature.

MR. SPRINGSTEEN replied there had not been any formal request after that point in time.

MR. PARADY added that part of ring-fencing AIDEA from political projects is use of the process. He explained that the initial project sponsor submittal is the entry point into the process and noted that that did not occur.

REPRESENTATIVE JOHNSON said his concern is the politicization of one the state's agencies.

[12:04:57 PM](#)

REPRESENTATIVE HERRON recalled that during a Legislative Council meeting, specifically, Mr. Davis was asked to make comment and he offered to assist in the decision process that the legislature was going through on that Fourth Avenue legislative information office (LIO) building. He further recalled it being relayed to [the Legislative Council] from AIDEA that Mr. Davis had a conflict, that to be clear of that conflict Mr. Davis was set aside, and that it would have to go to the Legislative Council chairman, Gary Stevens, to confirm that if Mr. Davis was not available, could AIDEA assist the council with other personnel. Representative Herron suggested that a conclusion to this conversation be provided by raising the issue with the Legislative Council chairman.

REPRESENTATIVE CHENAULT agreed AIDEA has been involved in the projects mentioned by Representative Johnson, such as the fish factory and others. He offered his belief that those projects were politically motivated by someone in the legislature that had the ability to push those projects. Millions of dollars were spent on those and they were not good for Alaska. However, he continued, AIDEA has done numerous projects that were initiated through contacts with private industry, such as the Red Dog Mine port project, Skagway ore terminal, and ship repair in Ketchikan. Those and numerous other projects have been very good for the state and; therefore, he does not want AIDEA to be

tarnished by projects that were pushed by the legislature rather than the private industry that AIDEA deals with.

[12:07:39 PM](#)

REPRESENTATIVE SEATON posited that in these fiscal times the conduit financing that may be offered through HB 246 could be valuable to the industry without putting the state at risk. He offered his support for HB 246 as an option that does not give the state liabilities and that could potentially be valuable to getting jobs and projects maintained or underway in Alaska.

REPRESENTATIVE TARR agreed with Representative Seaton's comments and said she is pleased with his amendment that tightens up the sideboards on what can be done with the fund and what kind of financial commitment that would be. She offered her support for the bill to be moved forward.

[12:09:35 PM](#)

REPRESENTATIVE HERRON moved to report HB 246, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 246(RES) was reported from the House Resources Standing Committee.

[12:10:07 PM](#)

The committee took a brief at-ease.

[12:13:08 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 12:13 p.m.