

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON ENERGY

March 26, 2015

3:34 p.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Peter Micciche, Co-Chair
Senator Lyman Hoffman
Senator Dennis Egan

MEMBERS ABSENT

Senator Bert Stedman

COMMITTEE CALENDAR

SENATE BILL NO. 50

"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 CSSB 50(NRG) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: SB 50

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

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/11/15	(S)	READ THE FIRST TIME - REFERRALS
02/11/15	(S)	NRG, RES, FIN
03/10/15	(S)	NRG AT 3:30 PM BELTZ 105 (TSBld)
03/10/15	(S)	Heard & Held
03/10/15	(S)	MINUTE(NRG)
03/26/15	(S)	NRG AT 3:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

LYNNE SMITH, Staff
Senator Micciche

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided an overview of the committee substitute for SB 50.

EUGENE THERRIAULT, Director
Energy Policy and Outreach
Alaska Energy Authority
Anchorage, Alaska

POSITION STATEMENT: Addressed the committee substitute for SB 50.

MERRICK PIERCE, representing himself
Fairbanks, Alaska

POSITION STATEMENT: Supports SB 50.

PAMELA THROOP, representing herself
Fairbanks, Alaska

POSITION STATEMENT: Supports SB 50.

LUKE HOPKINS, Mayor
Fairbanks North Star Borough
Fairbanks, Alaska

POSITION STATEMENT: Supports SB 50.

LISA HERBERT, Executive Director
Greater Fairbanks Chamber of Commerce
Fairbanks, Alaska

POSITION STATEMENT: Supports SB 50.

DAVID PRUHS, Council Member
Fairbanks City Council
City of Fairbanks
Fairbanks, Alaska

POSITION STATEMENT: Supports SB 50.

JOMO STEWART, Energy Project Manager
Fairbanks Economic Development Corporation
Fairbanks, Alaska

POSITION STATEMENT: Supports SB 50.

ACTION NARRATIVE

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CO-CHAIR PETER MICCICHE called the Senate Special Committee on Energy meeting to order at 3:34 p.m. Present at the call to

order were Senators Egan, Co-Chair Bishop, and Co-Chair Micciche.

SB 50-AIDEA: BONDS; PROGRAMS; LOANS; LNG PROJECT

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CO-CHAIR MICCICHE announced that the purpose of the committee meeting is to have the second hearing on SB 50, the Governor's bill on the Alaska Industrial Development and Export Authority (AIDEA). He noted that a committee substitute (CS) was before the committee for consideration.

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SENATOR HOFFMAN joined the committee meeting.

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CO-CHAIR BISHOP moved that the committee adopt the CS for SB 50, version: W, as the committee's working document.

CO-CHAIR MICCICHE objected for purposes of discussion.

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LYNNE SMITH, Staff, Senator Micciche, Alaska State Legislature, Juneau, Alaska, explained the CS changes as follows:

Section 2, page 2, line 17, changes the word "law" to the "Legislature" for approval.

Section 4, there is new language in there, the definition of a qualified energy development. Page 4, lines 22-25, it now reads in the sub-paragraph, "Distribution does not include a natural gas-line 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."

Section 5, page 5, lines 3-6, it now reads, "And the state will provide natural gas to Interior Alaska as a primary market and natural gas delivery and distribution systems, and affiliated infrastructure that will provide natural gas to Interior Alaska."

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CO-CHAIR MICCICHE removed his objection and announced that the CS was before the committee. He said he supports the project and proclaimed that it is time for the Interior to have a realistic

and lower cost solution. He shared with Senator Hoffman that the bill is a first step and that he has always focused on his district as well. He remarked that in the future, a pipeline is a better solution, but the bill allows the project to go forward while allowing AIDEA to continue considering the pipeline as a viable option.

CO-CHAIR MICCICHE addressed the Alaska LNG Project (AKLNG) as follows:

If AKLNG goes through, if this route were the other way, it could assist with a pipeline to Glennallen, Copper Center, Fort Greely, Delta Junction, areas that most likely would not be covered by a pipeline from AKLNG.

I guess when I think about whether or not this solution would be a waste in the future, there's still very viable uses for a pipeline route. Again, I want to just make sure that we are not applying a Band-Aid.

I am strongly requesting that AIDEA process this solution even if the cost is slightly more to look at the long term needs of the region and I believe that it is a better solution; this allows that solution to be considered and continued, but still doesn't get in the way of AIDEA for moving forward on the project they are looking at right now.

CO-CHAIR BISHOP commended Co-Chair Micciche's office's diligence in adding the pipeline option into the bill. He concurred that a pipeline provides the cheapest gas. He summarized that AIDEA has all of the tools in its toolbox to bring the project over the top.

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EUGENE THERRIAULT, Director, Energy Policy and Outreach, Alaska Energy Authority (AEA), Anchorage, Alaska, said the CS was appreciated and its language was acceptable.

MR. THERRIAULT pointed out that on page 5 of the language that was adopted honors some language that was considered by the other body's Interior delegation to not lose focus on the Interior as the primary market to anchor the infrastructure when "North Slope" was removed by the bill. He stated that there was concern that focusing on the Interior might make other geographic areas feel precluded. He explained that the

Department of Law advised that adding "The Interior is the primary market," suggests that there could be secondary markets. He detailed that adding secondary markets increases overall volume and ultimately lowers the per unit price for everyone.

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SENATOR HOFFMAN stated that he fully appreciates Co-Chair Micciche's comments. He pointed out that on page 5, line 4, "Interior Alaska as a primary market" is noted and suggested that "an affiliated infrastructure that will provide natural gas to Alaska" be included starting on line 5. He explained that "Interior" is already mentioned on line 4 and by saying "to Alaska" would fulfill and strengthen Co-Chair Micciche's comments regarding Southeast and the rest of Alaska.

CO-CHAIR MICCICHE remarked that the bill would have passed last year if there wasn't a focus on one area. He asserted that the language in SB 50 was better than what was proposed the previous year. He said SB 50 clarifies a primary market, but the remainder of the state is available. He stated that he hears what Senator Hoffman is saying. He noted his background in the natural gas industry and opined that Senator Hoffman's suggestion may not be a solution for his community. He set forth that a solution for Senator Hoffman's community is certainly possible in the bill's language.

SENATOR HOFFMAN conveyed acceptance that Co-Chair Micciche's comment regarding his community was on the record.

MR. THERRIAULT noted that Senator Hoffman is a member of the Senate Finance Committee. He stated that when the bill reaches Senate Finance, he is willing to work with Senator Hoffman on its language as long as the Interior demand to anchor the infrastructure is not lost.

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CO-CHAIR MICCICHE opened public testimony.

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MERRICK PIERCE, representing himself, Fairbanks, Alaska, stated that one important consideration is paying attention to Fairbanks' air quality. He said there is compelling evidence that Fairbanks' dangerously polluted air is injuring human beings. He explained that to get Fairbanks' air quality fixed, 3,000 to 5,000 woodstoves have to be eliminated by converting from wood to propane or wood to natural gas. He detailed that propane and natural gas are clean burning and emit almost no

particulates. He pointed out that Article 7, Section 4 of the Constitution requires that the Legislature promote and protect public health.

MR. PIERCE commended Senator Micciche for looking at a small-bore pipeline coming from Big Lake or Cook Inlet to Fairbanks. He pointed out that 305,000 miles of gas transmission pipeline has been laid across the U.S. because pipelines are the safest, fastest, and cheapest way to move gas. He suggested that the CS for the bill change "pipeline" to "pipelines" in order to allow for two pipes to be placed in the trench.

He opined that \$15 gas at-the-meter, \$21 at the-burner-tip is not going to work when wood is much cheaper. He stated that \$15 gas will not fix Fairbanks' air quality, attain adequate conversions, and put Fairbanks in parity with Anchorage. He said you have to have affordable energy to have industry and you need industry to have jobs.

He proposed that propane was a great fix for rural Alaska. He set forth that not spending \$250 million to do a full build-out of the gas grid will subsequently lower the pipeline's tariff.

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PAMELA THROOP, representing herself, Fairbanks, Alaska, stated that affordable energy on par with Anchorage is needed for Fairbanks to attract and retain businesses. She pointed out that Fairbanks' foreclosure rates have increased while the university, state offices, and businesses have relocated to Anchorage.

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LUKE HOPKINS, Mayor, Fairbanks North Star Borough, Fairbanks, Alaska, thanked the committee for having SB 50 moving forward with a CS. He opined that the CS adds flexibility for AIDEA to find the lowest or the most economical project that can bring low cost energy to Fairbanks. He referenced previous testimony regarding Fairbanks' air quality conditions and economic stress. He asserted that the cost of energy in Alaska's Interior area is certainly hampering Fairbanks' economy. He suggested that "secondary markets" be referenced in the bill, but noted Co-Chair Micciche's intention to focus on what can be solved and solved soon. He summarized that he looks forward to natural gas coming to Fairbanks and then the secondary markets.

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LISA HERBERT, Executive Director, Greater Fairbanks Chamber of Commerce, Fairbanks, Alaska, noted the difficulty in advocating on behalf of businesses without affordable energy. She revealed that the Greater Fairbanks Chamber of Commerce's board voted unanimously to support HB 105 and SB 50 with the understanding that the legislation provides the necessary flexibility to AIDEA in advancing a natural gas project that will address Fairbanks' high cost of energy.

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DAVID PRUHS, Council Member, Fairbanks City Council, City of Fairbanks, Fairbanks, Alaska, stated that the City of Fairbanks and the Fairbanks North Star Borough welcomes SB 50 as a way to get affordable energy to Fairbanks and the Interior.

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JOMO STEWART, Energy Project Manager, Fairbanks Economic Development Corporation, Fairbanks, Alaska, said the Fairbanks Economic Development Corporation is in favor of SB 50. He pointed out that 50 percent of the state's population suffers from the high cost of energy. He revealed that when Fairbanks moved forward on the Interior Energy Project, the intent was to create a system that could be replicated in other communities. He explained that the end result was creating a utility to help move gas around town that was funded by a low grant-high loan system. He detailed that the loan system would be replenished by a revolving loan fund that would make funds available in the future for other communities when gas became available to them. He stated that gas from the Cook Inlet and other sources might help Fairbanks attain the goal of \$10/MCF at the city-gate, \$15/MCF to the burner-tip. He summarized that good work has been done that not only benefits Fairbanks, but if done right, can serve as a model that can serve other communities as well.

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SENATOR HOFFMAN said the project to get gas to Fairbanks is very good. He opined that Bethel could receive energy transported on the Yukon and Kuskokwim rivers.

SENATOR EGAN thanked Senator Hoffman for legislation from the previous year that benefited Southeast Alaska as well.

CO-CHAIR MICCICHE summarized that politics was allowed to get in the way and two years was wasted on getting gas to Fairbanks. He declared that the Legislature needs to look at conversion rates, air quality, and increasing cargo levels on the railroad with lower cost refinery fuels. He opined that during the time of

lower oil prices, AIDEA should use their time wisely. He asked for the best solution to be found for everyone along the route that will remain in service after AKLNG is in service someday.

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CO-CHAIR BISHOP moved that the committee pass CS for SB 50, version: 29-GS1019\W from committee with individual recommendations and attached zero fiscal note(s).

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CO-CHAIR MICCICHE announced that hearing no objection, CSSB 50(NRG) has passed from committee with individual recommendations and the attached zero fiscal note.

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There being no further business to come before the committee, Co-Chair Micciche adjourned the Senate Special Committee on Energy at 4:06 p.m.