

ALASKA STATE LEGISLATURE
SENATE SPECIAL COMMITTEE ON ENERGY

April 5, 2016
3:35 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Lyman Hoffman
Senator Bert Stedman

COMMITTEE CALENDAR

PRESENTATION: AIDEA INTERIOR ENERGY PROJECT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

GENE THERRIAULT, Team Leader
Interior Energy Project (IEP)
Alaska Industrial Development and Export Authority (AIDEA)
Anchorage, Alaska

POSITION STATEMENT: Provided overview of the IEP.

NICK SZYMOIAK, Energy Infrastructure Officer
Alaska Industrial Development and Export Authority (AIDEA)
Anchorage, Alaska

POSITION STATEMENT: Addressed questions regarding natural gas proposals for the Interior Energy Project.

DAN BRITTON, President
Fairbanks Natural Gas (FNG)
Fairbanks, Alaska

POSITION STATEMENT: Addressed natural gas transportation for the Interior Energy Project.

ACTION NARRATIVE

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CO-CHAIR PETER MICCICHE called the Senate Special Committee on Energy meeting to order at 3:35 p.m. Present at the call to order were Senators Egan, Co-Chair Bishop, and Co-Chair Micciche.

PRESENTATION: AIDEA INTERIOR ENERGY PROJECT

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CO-CHAIR MICCICHE announced that Alaska Industrial Development and Export Authority (AIDEA) would provide the committee an update on the Interior Energy Project (IEP). He stated that the Legislature had been intimately involved with the IEP over the last four years and the committee was curious about what the featured plans were. He said the committee was especially interested in what the Interior-area ratepayers' costs were expected to be.

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GENE THERRIAULT, Team Leader, Interior Energy Project (IEP), Alaska Industrial Development and Export Authority (AIDEA), Anchorage, Alaska, stated that the IEP goals are as follows:

- Increase natural gas supply to Fairbanks and the Interior.
- Supply natural gas at the lowest possible cost.
- Supply natural gas to as many Interior customers as possible.
- Supply natural gas as soon as possible.
- Address Fairbanks PM2.5 air quality problem with the use of natural gas.

He explained that IEP's dynamics are driven by the cost of diesel fuel. He conceded that the cost of diesel fuel had recently gone down, but prices were expected to go up over time.

He reviewed the "Legislative History" of the IEP as follows:

- SB 23 was passed in 2013 to provide AIDEA with financing tools to move IEP forward.
- IEP initially focused on natural gas supply from the North Slope, but a private partner was not identified that achieved the community's goals.

- HB 105 was passed in 2015 to broaden natural gas sources via pipeline, propane delivery, or other ideas.

MR. THERRIAULT explained that AIDEA put out a new request-for-proposal (RFP). He said AIDEA received many proposals and after a review process, the focus was on natural gas from the North Slope or the Cook Inlet.

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He addressed IEP's supply chain components where natural gas was liquefied, transported via truck or rail, then re-gassed and put into a distribution system for customers. He reiterated that the IEP supply chain anticipated potential Cook Inlet and North Slope supply.

He addressed the liquid natural gas (LNG) supply progress and detailed that two companies were identified from the RFP: Spectrum off of the North Slope, and Salix out of Cook Inlet. He noted that Salix is a division of Avista, an entity that also owns Alaska Electric Light and Power Company (AEL&P) in Juneau.

CO-CHAIR MICCICHE asked why Salix was the chosen partner.

MR. THERRIAULT replied that the AIDEA Board met on March 3 where the RFP Evaluation Committee presented their selections. He noted that negotiations continue with Salix to address paying for the proposed deal and bringing the full package back to the AIDEA Board for consideration.

He addressed the progress of natural gas distribution in the Fairbanks North Star Borough. He detailed that AIDEA acquired Fairbanks' natural gas distribution system, Pentex/Fairbanks Natural Gas (FNG), in 2015. He revealed that AIDEA used financing tools to expand FNG's existing system in anticipation of a larger gas supply to hook up more customers in the core Fairbanks area. He added that AIDEA provided a Sustainable Energy Transmission and Supply Development Fund (SETS) loan to Interior Alaska Natural Gas Utility (IGU) for building additional distribution in anticipation of a gas supply being available.

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CO-CHAIR BISHOP asked if he would address natural gas storage during his presentation.

MR. THERRIAULT replied yes. He addressed IEP's Quarterly Report to the Legislature and explained that the reports were required

when HB 105 was passed. He noted that the most recent IEP Quarterly Report was distributed to legislators.

MR. THERRIAULT called attention to his memo to the AIDEA Board, dated March 3. He detailed that the memo addressed the RFP Evaluation Committee's meeting on February 4 regarding which candidate recommendations would move forward. He revealed that Arcadis, Inc. provided third-party analysis to the RFP Evaluation Committee. He noted that Arcadis also issued a redacted report for public distribution where confidential information was censored.

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CO-CHAIR MICCICHE asked if he was referring to the updated report from February 26.

MR. THERRIAULT answered correct. He continued to address the February 4 RFP Evaluation Committee meeting and explained that Salix was unanimously recommended to be the project partner.

CO-CHAIR BISHOP asked if the RFP Evaluation Committee's vote was unanimous.

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MR. THERRIAULT answered yes.

He pointed out that HB 105 required AIDEA to provide information on how a final natural gas price to the customer was derived. He explained that the Arcadis Report detailed the Salix proposal regarding plant size, operational cost and fee in putting out a unit of LNG. He specified that Salix's ultimate delivered price to an IEP customer was \$15.74 per thousand cubic feet (MCF). He noted that IEP's target price was \$15.00 per MCF. He set forth that Salix's price was believed to be within range and further negotiations were recommended to reduce capital expenditures and the price of gas.

CO-CHAIR MICCICHE pointed out that \$6.50 was missing from the itemization of costs in the \$15.74 delivered price. He detailed that \$6.00 was the purchase price for gas and \$3.24 for liquefaction, but \$6.50 was unaccounted for.

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NICK SZYMOIAK, Energy Infrastructure Officer, Alaska Industrial Development and Export Authority (AIDEA), Anchorage, Alaska, explained that the \$6.50 was based on an estimate of \$2.50 per MCF for trucking from the LNG plant to the Fairbanks North Star

Borough, and \$4.00 for gas storage and distribution. He noted that internal analysis and modeling had verified that the estimate is still accurate.

CO-CHAIR MICCICHE asked if any of RFP respondents submitted unit pricing for liquefaction, storage, re-gas, and distribution. He inquired if there was interest in an all-in in combination with liquefaction.

MR. SZYMOIAK answered no. He specified that no respondent proposed anything beyond trucking to Fairbanks. He noted that one respondent proposed providing gas supply, liquefaction, and transportation to Fairbanks; however, no respondents proposed actually owning or pricing in the cost of Interior storage and distribution.

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CO-CHAIR BISHOP noted that a new trailer designed to carry more gas to Fairbanks was tested. He asked if transportation costs might come down if the trial is successful.

MR. THERRIAULT replied the trial with the larger trailer was successful, but the maximum capacity was not attained. He explained that a trailer was sent roundtrip with full loads to the North Slope and AIDEA determined that it does help in bringing the per-unit cost down. He deferred further comment to Mr. Britton.

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DAN BRITTON, President, Fairbanks Natural Gas (FNG), Fairbanks, Alaska, stated that the new trailer operated close to what was expected, with over 20 roundtrips completed. He specified that approximately 12,300 gallons per unit was hauled, which equates to 25 to 50 cents per thousand cubic feet savings from the \$2.50 range noted by Mr. Szymoiak, depending on the amortization of the capital cost of the trailers.

CO-CHAIR BISHOP asked if the trailer sent to the North Slope was loaded in both directions.

MR. BRITTON replied that the trailer was tested full and empty in both directions. He noted that Prudhoe Bay does not have off-loading capabilities. He revealed that the driver indicated that the new trailer performance was comparable to the fuel trailers that haul every day.

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CO-CHAIR MICCICHE asked what new trailer's capacity is.

MR. BRITTON answered 12,300 gallons per trip.

CO-CHAIR MICCICHE asked what the original capacity rating was.

MR. BRITTON answered 13,000 gallons.

CO-CHAIR MICCICHE asked what the current trailer capacity is.

MR. BRITTON replied 9,500 gallons for a standard two-axle trailer.

CO-CHAIR MICCICHE addressed the choice between Salix and Spectrum. He noted that Salix looked like they were all-in considering the \$39.73 million across 20 years and the \$10 million required investment for a total of \$49 million. He said Spectrum was about \$10 million more with \$54 million plus the \$5 million investment.

MR. SZYMOIAK agreed. He pointed out that Salix's figures were fluid as commercial and technical discussions advance. He said Salix's figures were likely to change downwards for the benefit of Interior customers.

CO-CHAIR MICCICHE remarked that the choice was fairly simple considering the risk associated with the North Slope option, the term sheets, and then the plan's ownership at the end of the 30-year term. He asked if the simple choice was the reason for the unanimous vote by the AIDEA Board.

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MR. THERRIAULT answered yes. He detailed that the cost of the competing fuel has come down and will impact customer conversions. He opined that the Salix plants seemed to be better sized to compete with the lowered competing fuel cost in order to get conversions.

CO-CHAIR BISHOP noted that Fairbanks' announcement the previous day was historic, [F-35 fighter aircraft assigned to Eielson Air Force Base]. He asked if IGU had the capacity for the anticipated residential buildout in the North Pole/Eielson Air Force Base area.

MR. THERRIAULT answered yes. He admitted that demand numbers may have to be updated.

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MR. BRITTON noted that during the previous year, IGU installed 70 miles of distribution mains with access for 2,000 customers in the North Pole area. He revealed that Cook Inlet liquefaction with a large storage facility could serve 4.5 billion cubic feet (BCF) of customer demand. He disclosed that Fairbanks' current demand is less than 1 BCF.

CO-CHAIR MICCICHE asked him to verify that the capital expenditures (CAPEX) for the LNG plant is \$70 million with operating expenses (OPEX) at \$7.7 million. He noted that the OPEX will be \$4.6 million when the energy cost is taken out of the equation.

MR. BRITTON replied the referenced CAPEX and OPEX numbers were a little high.

CO-CHAIR MICCICHE asked how the Interior's lowered price for home heating's traditional source would influence the final investment decision (FID).

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MR. THERRIAULT said the delivered price of fuel oil to a home is under \$2 which is comparable to the natural gas target of \$15. He noted that the air quality issue should be considered as well. He said with no local government requirement for a natural gas hookup, they are trying to incent people to use a cleaner-fuel alternative. He pointed out that AIDEA is trying to identify non-state general fund sources to assist with consumer conversions. He said AIDEA looked at the current stage as a bridge-step for the community preparing itself for the use of natural gas over the long term.

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CO-CHAIR MICCICHE asked if there were federal grants available for the project that address the air quality issue.

MR. THERRIAULT answered that federal dollars are available. He pointed out that U.S. Senator Lisa Murkowski was successful in increasing an existing EPA grant that typically was used in California for ozone problems that might be useful for Fairbanks and other communities in Alaska.

CO-CHAIR MICCICHE remarked that the EPA grant was not an anti-fossil fuel program.

MR. THERRIAULT answered correct. He added that AIDEA was looking at another federal loan program that specifically addressed more efficient and cleaner fuel source conversions.

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CO-CHAIR MICCICHE commented that estimating a customer conversion rate is tough, especially when diesel prices are down. He admitted that people take into account how long they will be living in their homes when deciding on a conversion to natural gas.

MR. THERRIAULT pointed out that House and Senate finance committees were looking at legislation that targeted business conversions through the federal property-assessed clean energy (PACE) financing. He noted that the legislation was based on Texas's PACE model. He detailed that the PACE mechanism would attach a repayment obligation to a business's property tax bill. He pointed out that a buyer of a business with a PACE obligation would pick up the remaining portion of a more fuel efficient operation.

SENATOR EGAN asked if municipalities would be involved with PACE loans.

MR. THERRIAULT explained that a local government would work with a utility in order to issue a tax bill that takes the PACE loan into account. He specified that repayment would come back through a voluntary assessment on the individual property where the government would pledge the monies for paying back the loan.

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CO-CHAIR MICCICHE expressed hope that Mr. Therriault would be successful. He remarked that the FID is challenging, largely due to a commodity price issue. He said he hoped that the Cook Inlet continued to have adequate natural gas output to maintain or lower prices.

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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 4:15 p.m.