

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

April 10, 2015

3:30 p.m.

MEMBERS PRESENT

Senator Cathy Giessel, Chair
Senator Mia Costello, Vice Chair
Senator John Coghill
Senator Peter Micciche
Senator Bert Stedman
Senator Bill Stoltze
Senator Bill Wielechowski

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CS FOR HOUSE JOINT RESOLUTION NO. 18(RES)
Urging the United States Congress to pass the Improved National Monument Designation Process Act.

- MOVED SCS CSHJR 18(RES) OUT OF COMMITTEE

SENATE BILL NO. 101

"An Act relating to fees for use of state park system facilities; and relating to the sale of merchandise by the Department of Natural Resources."

- HEARD & HELD

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."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HJR 18

SHORT TITLE: LIMIT DECLARATION OF NATL. MONUMENTS

SPONSOR(S): REPRESENTATIVE(S) MILLETT

03/16/15 (H) READ THE FIRST TIME - REFERRALS
03/16/15 (H) RES
03/30/15 (H) RES AT 1:00 PM BARNES 124
03/30/15 (H) Moved CSHJR 18(RES) Out of Committee
03/30/15 (H) MINUTE(RES)
03/31/15 (H) RES RPT CS(RES) 5DP 1DNP 2AM
03/31/15 (H) DP: HERRON, JOHNSON, OLSON, HAWKER,
TALERICO
03/31/15 (H) DNP: JOSEPHSON
03/31/15 (H) AM: SEATON, TARR
04/08/15 (H) TRANSMITTED TO (S)
04/08/15 (H) VERSION: CSHJR 18(RES)
04/09/15 (S) READ THE FIRST TIME - REFERRALS
04/09/15 (S) RES
04/10/15 (S) RES AT 3:30 PM BUTROVICH 205

BILL: SB 101

SHORT TITLE: STATE PARKS FEES & SALES OF MERCHANDISE

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

04/08/15 (S) READ THE FIRST TIME - REFERRALS
04/08/15 (S) RES, FIN
04/10/15 (S) RES AT 3:30 PM BUTROVICH 205

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 (TSBldg)
03/10/15 (S) Heard & Held
03/10/15 (S) MINUTE(NRG)
03/26/15 (S) NRG AT 3:30 PM BELTZ 105 (TSBldg)
03/26/15 (S) Moved CSSB 50(NRG) Out of Committee
03/26/15 (S) MINUTE(NRG)
03/27/15 (S) NRG RPT CS 3DP 1NR SAME TITLE
03/27/15 (S) DP: EGAN, BISHOP, HOFFMAN
03/27/15 (S) NR: MICCICHE
03/30/15 (S) RES AT 3:30 PM BUTROVICH 205
03/30/15 (S) Heard & Held
03/30/15 (S) MINUTE(RES)

04/03/15 (S) RES AT 3:30 PM BUTROVICH 205
04/03/15 (S) -- MEETING CANCELED --
04/09/15 (S) FIN AT 1:30 PM SENATE FINANCE 532
04/09/15 (S) <Pending Referral>
04/10/15 (S) RES AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

JEFF TURNER, staff to Representative Millett
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Explained HJR 18 for the sponsor.

RANDY RUARO, staff to Senator Stedman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Commented on HJR 18.

BEN ELLIS, Director
Division of Parks and Outdoor Recreation
Department of Natural Resources (DNR)
Juneau, Alaska

POSITION STATEMENT: Explained the rationale for SB 101.

FRED PARADY, Deputy Commissioner
Department of Commerce, Community and Economic Development
Anchorage, Alaska

POSITION STATEMENT: Explained SB 50.

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

POSITION STATEMENT: Explained SB 50.

ACTION NARRATIVE

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CHAIR CATHY GIESSEL called the Senate Resources Standing Committee meeting to order at 3:30 p.m. Present at the call to order were Senators Stedman, Costello, Coghill and Chair Giessel.

HJR 18-LIMIT DECLARATION OF NATL. MONUMENTS

[3:30:58 PM](#)

CHAIR GIESSEL announced the consideration of HJR 18 [CSHJR 18(RES) was before the committee].

SENATOR COSTELLO moved to adopt SCS HJR 18(), version 29-LS0707\N, as the working document.

CHAIR GIESSEL objected for discussion purposes.

JEFF TURNER, staff to Representative Millett, Alaska State Legislature, Juneau, Alaska, explained that HJR 18 urges the United States Congress to pass the Improved National Monument Designation Process Act. Sponsored by U.S. Senator Lisa Murkowski and co-sponsored by Senator Dan Sullivan, SB 437 creates new requirements and limits the authority of the president to create or expand existing monuments under the Antiquities Act of 1906. Passed under the administration of President Teddy Roosevelt, it grants the president of the United States the power to create national monuments that protect and preserve important land marks in environmentally sensitive areas using the smallest area necessary to conserve and protect the monument.

[3:32:50 PM](#)

SENATOR MICCICHE joined the committee.

MR. TURNER continued that while this act has been used wisely for decades to preserve some of America's most pristine and important areas, a lot has changed. There are more demands on public lands than ever and state and local economies need to be taken into consideration. Tourism, hunting, commercial and sport fishing, and natural resource development all take place on public lands. The time has come to make the process for creating national monuments more comprehensive.

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He said SB 437 makes three significant changes to the Antiquities Act. First, it requires specific authorization by an act of Congress to designate a national monument. Second, it requires approval by the state legislature and, for marine national monuments, it requires approval by each state legislature within 100 miles of the proposed monument. And third, it must conform to the National Environmental Policy Act. These commonsense changes will bring the act into the 21st Century.

Why is the improved National Monument Designation Process Act so important and why is it important to Alaska? Right now there are 142 national monuments nationwide; 10 of them were created and 2 more were expanded since the current administration in

Washington, D.C., started its second term in January 2013. They were all created without the approval of Congress or the states where the monuments were created. The last one in Alaska was created by President Carter in 1978.

Senator Murkowski filed this legislation because she is concerned about the potential for new national monuments in Alaska that are going to restrict or outright prohibit critical economic activity. Two possible sites, in particular, are the Aleutian Islands and the Arctic National Wildlife Refuge. President Obama will be in Alaska this summer and no one knows if he will announce the creation of a new national monument, but the two senators are worried that will happen and filed SB 437 and Representative Millett filed HJR 18 to support it.

MR. TURNER referred to an article from the Fairbanks Daily News Miner January 25 in which Senator Murkowski said that nothing will happen in congress and she was worried the president would use the authority of the Antiquities Act and put the Arctic National Wildlife Reserve (ANWR) in permanent wilderness status and lock it up.

This month the White House transmitted to Congress its formal request to designate the Coastal Plain of ANWR as wilderness. The proposal is very unlikely to pass congress, so the stage is set for the president to use the Antiquities Act and lock up the most promising on-shore oil and gas prospect in the entire country and starve the TransAlaska Pipeline (TAPS) from oil. They are not seeking to stop creation of new national monuments, but to make the process better.

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SENATOR STOLTZE joined the committee.

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RANDY RUARO, Staff to Senator Stedman, Alaska State Legislature, Juneau, Alaska, said that Senator Stedman had proposed on page 2, lines 10-15 and lines 24-26, to insert language that reminds the federal government that there is already in statute the "no more clauses" of Alaska National Interest Land Conservation Act (ANILCA) that were intended to prevent unilateral exercise of federal authority to designate more wilderness areas or parks in Alaska. His language supplements the intent of the resolution well, which is to add clarity and boundaries to the exercise of executive authority.

CHAIR GIESSEL asked Mr. Turner if the change was acceptable to the sponsor.

MR. TURNER answered yes.

CHAIR GIESSEL removed her objection and the Senate CS for CSHJR 18, version N, was adopted.

SENATOR STEDMAN noted that a couple of the national monument proclamations had been abolished: one in Lake Lewis and Clark, Montana, and another one the Shoshone cabins in Wyoming. So, apparently, it can be done.

MR. TURNER commented that national monuments had been abolished in the past for a couple of reasons: one is a national monument that later on was determined to not be that historically significant; another one was a site explored by a French explorer in North or South Dakota and it was later determined that explorer was never at that site. Another in New York was taken over and turned into a state/national park.

SENATOR MICCICHE said what is scary about the Antiquities Act is that the one that was vetoed by a state in Jackson Hole, Wyoming, was not overridden by the court.

MR. TURNER summarized that there are over 300 million people in this country, but the power to create a national monument rests entirely in the hands of one person who can't seem to be challenged on any level.

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SENATOR COGHILL offered Amendment 1 on page 2, line 15, to delete "by federal legislation" and say that no more land in the state should be set aside, period.

CHAIR GIESSEL objected for discussion.

SENATOR STEDMAN said it was fine with him.

MR. RUARO said the amendment is important because the "no more clause" has expanded beyond legislation by Congress to unilateral action by the president, as well.

MR. TURNER said the sponsor approves of the change.

CHAIR GIESSEL removed her objection and without further objection, Amendment 1 was adopted.

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SENATOR MICCICHE said considering the Jackson Hole case, which used the Antiquities Act for a national monument, he wondered if ANILCA could give Alaska standing if the same issue occurred under the "no more clause."

MR. RUARO replied that ANILCA gives Alaska a very strong position of standing if that same situation were to occur here.

CHAIR GIESSEL opened public testimony and finding none, closed public testimony.

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SENATOR WIELECHOWSKI joined the committee.

SENATOR WIELECHOWSKI asked how many acres President George Bush expanded under the Antiquities Act.

MR. TURNER replied that he didn't have that number in front of him, but would get it.

SENATOR WIELECHOWSKI asked how many new national monuments President George Bush established.

MR. TURNER answered that he didn't see one on his list.

SENATOR WIELECHOWSKI said he thought that list might be inaccurate and asked if he had a listing of how many presidents established national monuments.

MR. TURNER answered 16.

SENATOR STEDMAN remarked on the magnitude of the impacts on Alaska regardless of which president did it and he thought there would be more emphasis on Alaska in the future.

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SENATOR MICCICHE said it looks there were 15 by President Obama and President George Bush did 6.

MR. TURNER corrected his previous testimony and said 6 were created under the second President Bush.

SENATOR WIELECHOWSKI said his 2009 article says President Bush invoked the Antiquities Act to establish three marine monuments that protect 125 million acres of habitat, and according to the

article, it was the most sweeping use of the Antiquities Act since 1906. He asked if the resolution could be made more bipartisan.

CHAIR GIESSEL responded that the information in his article was outdated and that President Obama had created 15.

SENATOR WIELECHOWSKI asked if the legislature took any action or do any resolutions when President Bush undertook his "most sweeping actions since 1906."

MR. TURNER replied that he wasn't aware of any and explained the point they are trying to make is that an unprecedented number of national monuments had been created and expanded in this state in the space of two years and one month.

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He understood Senator Wielechowski's point about pointing a finger at the current administration, but this is for future administrations. The point is that a public process should be created that brings everyone to the table instead of just one person having the ability to create a national monument.

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SENATOR WIELECHOWSKI asked if they should urge revocation of all national monuments that have been invoked by presidents without congressional approval as part of this resolution.

MR. TURNER answered that was not part of Representative Millett's resolution and there is a concern about what could happen to ANWR when President Obama visits Alaska.

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SENATOR STEDMAN asked the committee to reflect that Sitka under President Taft was number 24. On the repeal issue, if they were to do that, it would be attractive to look at Glacier Bay, which is the area lost to submerged lands.

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SENATOR MICCICHE commented that the focus on Alaska seemed to be from President Carter with Admiralty Island.

SENATOR COSTELLO moved to report SCS CSHJR 18(), version N as amended, from committee with individual recommendations and attached fiscal note(s). There were no objections and SCS CSHJR 18(RES) was reported from Senate Resources Standing Committee.

[3:55:42 PM](#)

At ease from 3:55 to 3:57.

SB 101-STATE PARKS FEES & SALES OF MERCHANDISE

[3:57:17 PM](#)

CHAIR GIESSEL announced the consideration of SB 101.

BEN ELLIS, Director, Division of Parks and Outdoor Recreation, Department of Natural Resources (DNR), Juneau, Alaska, said SB 101 is necessary to allow the Division of Parks and Outdoor Recreation to sell state park merchandise to retailers ensuring a fair and reasonable return to help support state park operations, thereby reducing reliance on the general fund.

SB 101 would add a new subsection to AS 41.21.026 to grant the DNR the authority to sell the retailers state park-themed merchandise for informational, educational and promotional purposes to support park operations. The new subsection that would allow the department to establish prices for park-themed merchandise is to ensure a fair and reasonable return. It would also remove language in AS 41.21.026(a) requiring all fees to be collected in a park unit, making clear that the department has the authority to collect fees at locations outside of park units.

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MR. ELLIS said the bill is needed to help the division get more revenue. The division currently generates about \$3 million annually from park fees and 33 percent of their operating budget is covered by these fees. Fees were raised across the board going into the 2015 season projecting the same usage as last year and that results in about a 42-44 percent increase in revenue. It has been his and the commissioner's goal to find alternative ways to help fund more recreational opportunities in Alaska. A number of states use this model; South Carolina has done it for 10 years and raises about \$1.72 million annually above what their merchandising program costs to run. This proposal would get Alaska going in that direction.

SB 101 would allow the state to create, purchase and sell authentic state park merchandise to retailers thus providing opportunity for private businesses while generating revenue for the state. Currently, he could find only one source for purchasing state park merchandise and it's on line. One can pick any state park in Alaska and are able to buy a T-shirt, sweat

shirt, hat, whatever, and the state receives no funds from that enterprise.

He said with this legislation that Alaskans who buy authentic Alaska state park merchandise could be confident that their purchases would benefit the state parks they care about.

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MR. ELLIS related that four years ago, they just had completed a 40-year celebration of Alaska state parks and had a number of beautiful photos in a photo contest. He thought what great note cards they would be and put eight of the winning photos on a blank notecard along with the name of the photographer, the location, and technical information. It was put into a nice package that could be sold. His intent was to charge \$15 for what cost them \$5.28 to create and it was going to go toward operations. Unfortunately, current statutes say that parks can't sell anything - camp fees, fire wood, whatever - for profit. That was the beginning of his starting to look at what other states do. He said that 39 other states have some type of a merchandising program; South Carolina has the most successful.

SENATOR COSTELLO said she remembered this issue from previous legislatures and asked if raising park fees needs a statute change.

MR. ELLIS answered yes, because AS 41.21.026(a) lists informational, educational and promotional purposes. It gets wrapped up with fire wood and other things that can only be sold for cost.

SENATOR STOLTZE asked if Alaska has a patent or trademark on these logos.

MR. ELLIS answered no, but a patch saying "official gear" could be put on with the Alaska state park logo and retailers could be urged to put a sticker of support for Alaska state parks in their windows. He can't get a copyright on it, but he is working with people on using the Alaska grown symbol.

SENATOR STOLTZE mentioned that the DNR and the Department of Law (DOL) could give him a lot of insight on the issue of patenting that would be useful to have.

SENATOR MICCICHE said he thought selling authentic Alaskan wear would be a good idea. He asked where the \$350,000 would come from to initiate the program and what it would be used for.

MR. ELLIS answered the \$50,000 is a one-time capital request. The \$350,000 would be the ability to receive up to \$350,000 from the merchandise. If this goes forward, he wanted to do it on a very measured basis starting with creating \$50,000 worth of product, selling it, looking at the return, and investing it again the following year until they get to a point of actually having enough volume to make a significant profit.

SENATOR MICCICHE asked if he plans on changing revenues from FY16 to FY21 on the fiscal note.

MR. ELLIS answered no.

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SENATOR WIELECHOWSKI asked what section 3 is repealing.

MR. ELLIS answered that it basically deletes language saying the state can charge the cost of what the product is, but not for a profit.

SENATOR STEDMAN said he had talked to Mr. Ellis earlier this year about the budgets in trying to deal with the parks in Sitka, one of which is where the Russians and Americans changed the flag. Quite a few people access it and the state should be able to charge a couple dollars to help offset the cost of running the parks. But maybe they should consider outsourcing the merchandising program and take some sort of royalty off of it. People who are in the business of selling T-shirts or popcorn are probably better at it than the well-meaning folks that aren't actually in that type of business. The state could just license the product and collect the check and not stick its neck out too far.

MR. ELLIS responded that some states have that model, but he looked at the states that generated the highest level of revenue above the cost of the program and that was South Carolina that is doing it themselves. But he was not opposed to that approach.

SENATOR STEDMAN said he saw his point, but state agencies don't have that great a history of getting through their overhead burden. But he supported the bill and the concept.

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SENATOR STOLTZE concurred with Senator Stedman, but added that Alaska doesn't have a trademark or a patent and some companies are already making these types of products. All Alaska can

really sell is an official sanction, which would have limited value if it gets too expensive.

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SENATOR WIELECHOWSKI also wondered what the state really has to sell if it doesn't have a trademark or a patent. He thought a lot of people would want to buy an official T-shirt or hat or something knowing that a big chunk of it is going to the state park system. Going to a private model would be preferable but the state doesn't have anything to sell.

MR. ELLIS responded that he is exploring all options. He had conversations with Princess Lodge that wants to sell these items in their gift shops, because they want to promote and support Alaska's parks. So, he believes there are merchants out there that would be interested. Totem Bite is another example.

He didn't expect to make as much money as South Carolina does, because the programs are different, but it is the start of looking at other possible revenue generating areas. Just raising fees is not a sustainable model.

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SENATOR STEDMAN asked him to explain what the Totem Bite is.

MR. ELLIS replied that Totem Bite is a state historical park in Ketchikan that has hundreds of thousands of visitors each year. It is a replica of a totem village that Totem Trading Company, Inc., has next door to it, a museum that is second to none.

SENATOR MICCICHE agreed that there is a market for gear, but said the division already has ability in existing law for competitive and exclusive commercial use permits. Even if they used kiosks in the most popular places, they wouldn't have to be run by park employees. They have the option right now under existing law for someone coming in and having such a thing with a portion of the proceeds going to the Park Service.

MR. ELLIS answered if there is a product, yes, but he didn't know of an Alaskan state product being sold in the state.

SENATOR WIELECHOWSKI wondered if the state is violating law now by selling cabins referencing deleting "in a park unit" on page 1, line 6, and he thought it would be a good idea to do something about that. He asked if there could be some other unintended impacts coming from that deletion.

MR. ELLIS said he had worked with the Department of Law on that and didn't always understand legal language, but currently if one wants to reserve a public use cabin, it is done on line; it is not done in a unit. If one goes to a public information center and purchases an annual parking pass, that is not done in a unit. This language just tries to clarify what is already being done.

SENATOR COGHILL said this needs to be passed, because the state is already violating law and asked what assurances he can give if this proceeds forward, that it gets reviewed so the state "doesn't get tangled up in a lawsuit." He liked the idea of merchandising things and having it plowed back into the parks.

MR. ELLIS gave him his personal assurance that he would have the Department of Law look into it. The model he used, South Carolina, has a three-legged stool: they sell merchandise in their units most of which have a gift shop; Alaska doesn't. They sell them on line and they sell them in retail. Obviously, in the park and on line, where the State of Alaska is using it, it would be assured of the return on the profit. He is concerned in going with on line and in the units that the state would be in competition with the private sector even though they would be giving the opportunity for the private sector to purchase the product at wholesale.

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SENATOR COGHILL said on line would be the best place because his area doesn't even have kiosks.

MR. ELLIS agreed that kiosks would not be cost effective and that the best bet would be to work with lodges like the Princess Lodge that has a large volume of people coming through it.

CHAIR GIESSEL said the National Park Service in Kotzebue has a visitor center that sells merchandise and she sees that in a lot of other states, as well.

SENATOR STOLTZE said the federal government has concessionaires at the major national parks. He asked if the division needed a broader authority so that conservation minded families wanting to endow a cabin as a friend of the parks could be able to do that.

MR. ELLIS answered that they do have that authority now. It comes through a donation from a family that says it wants to have it applied to a specific area or parks in general.

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SENATOR WIELECHOWSKI said he wanted to hear from the Department of Law if on line fees are illegal.

MR. ELLIS replied he hadn't talked to them about that, but will have an answer back through the chair.

SENATOR WIELECHOWSKI said he thought they likely needed to pass something as quick as possible.

CHAIR GIESSEL agreed and said it would be helpful to know about the logo trademark issue. She asked Mr. Ellis to get that information. She held SB 101 in committee.

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

[4:32:38 PM](#)

CHAIR GIESSEL announced consideration of SB 50. [CSSB 50(NRG) was before the committee.]

[4:32:59 PM](#)

At ease from 4:32 to 4:34 p.m.

[4:34:23 PM](#)

FRED PARADY, Deputy Commissioner, Department of Commerce, Community and Economic Development (DCCED), Anchorage, Alaska, said he had an abbreviated set of slides to refresh people on SB 50.

NICK SZYMONIAK, Energy Infrastructure Development Officer, Alaska Industrial Development and Export Authority (AIDEA), Anchorage, Alaska, introduced himself.

MR. PARADY said the goals of the Interior Energy Project (IEP) are straightforward, to supply natural gas to the Interior at the lowest possible cost to as many customers as possible and as soon as possible.

Investments in the IEP complement the eventual sources of gas supply from a natural gas pipeline which everyone hopes will come forward. A key goal, he said, is the lowering of the particulate matter (PM) 2.5 in the non-attainment areas of the Interior, a serious health issue that the legislature has directed to address through previous SB 23.

MR. PARADY said the current status of the IEP is that they diligently pursued development of a North Slope liquefied natural gas supply agreement through a concession agreement. That agreement did not work out. AIDEA and the Alaska Energy Authority (AEA) are now evaluating infrastructure to develop natural gas from Cook Inlet and are seeking authority to source gas from Cook Inlet.

He said AIDEA is financing the build out of the natural gas distribution systems in Fairbanks and North Pole. It has allocated a \$15 million loan to Fairbanks Natural Gas (FNG) and a \$37.78 million loan to the Interior Gas Utilities (IGU) for those distribution systems - a total of \$52.78 million.

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MR. PARADY revisited the reason the North Slope project under the concession agreement did not proceed was because it did not pass AIDEA's due diligence process and receive board approval. That is why they are now looking at sourcing gas from the Cook Inlet.

CHAIR GIESSEL asked him to explain the chart he was referencing.

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MR. PARADY said AIDEA takes its loan portfolio very seriously. Phase 1 is the project suitability assessment which consists of: proposal information, sponsor information, estimated cost and a timeline. The AIDEA process that would follow those project sponsor submittals answers the following: Is the project consistent with AIDEA's initiatives? Is it feasible? What is the proponent's experience and capability? Are they capable of delivering what they are proposing? And, is AIDEA the right source for financing?

The output is a suitability report; the decision-making would come from a project evaluation committee.

Phase 2 has the full-blown feasibility analysis, which is the business and financing plan, the schedule, its execution and development plan. The AIDEA process is the asking whether the building and financing plan is attainable. Is there public support for it? What is the timing and status of the project? What are the risks? The output of that piece of due diligence, which comes from the Investment Committee, is the reimbursement agreement and term sheet and that goes to the AIDEA board.

Phase 3 asks for the deal's structuring and due diligence, which is the final execution plans and final financing plans.

Phase 4 is the finalization and closing. The North Slope project did not reach this finalization and closing phase.

MR. PARADY said the concession agreement for the North Slope project with MWH, was a long involved process. The equity partner in that agreement offered \$80 million for private capital through North Leaf, but the details surrounding the liquefaction plant soared to \$280 million, the deliverables weren't there in terms of timing and so it did not reach phase 4 finalization and closing. The concession agreement was terminated prior to phase 4.

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MR. PARADY provided a quick snap shot of project comparisons. He said the natural gas supply for Cook Inlet is not certain, but indications are positive. On the North Slope there was an abundant supply at low cost and other contracts in place for some of it, but designing and constructing an LNG plant for North Slope conditions is expensive. That will be cheaper coming from the south as that has lower trucking costs and a large trailer potential. He noted the declaration of emergency on the Dalton Highway and if the project were connected to an LNG plant on the North Slope, not one single truck would be moving for a substantial period of days. If that were to occur in deep winter conditions in Fairbanks, an ultimate storage facility would be needed to assure reliable supply.

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Trucking is more expensive from the North Slope, but it is feasible. He said the Dalton Highway risk which is a somewhat new development and that storage and distribution is essentially the same in either project.

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MR. SZYMONIAK took over the presentation. He noted that the supply of natural gas is not certain and being explored through a competitive commercial process. He exhibited a slide that indicated an 80 bcf of Interior gas demand for 10 years. That compares with about 1 tcf of existing natural gas reserves not including undiscovered fields or recently discovered fields like Kitchen Lights or Cosmo, which are anticipated to have significant, producible commercial volumes of natural gas. A scale of the last 10 years of LNG exports out of the ConocoPhillips LNG plant indicated exports approaching 400 bcf

in the last 10 years, which is vastly greater than what is expected to go to Interior Alaska over the next 10 years. If the Agrium Plant were restarted, it would mean about 30 bcf/year. At full build out the Interior demand is expected to be about 9.5 bcf. This includes both natural gas utilities as well as Golden Valley Electric Association (GVEA) - and it would take a number of years to complete very ambitious customer conversions to natural gas.

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SENATOR COGHILL said he couldn't anticipate this project going forward more, but there was the question of gas supply a couple of years ago and asked why this gas concept is different now.

MR. SZYMONIAK explained that AIDEA is a market driven authority; they respond to the market and support the private sector. One of the big indications that Cook Inlet may be a viable source was that the private sector - Hilcorp and Westpac - started proposing solutions to bring natural gas for LNG from there into the Interior market. In addition, Cook Inlet gas discoveries that were in large part due to the tax incentives as well as the two jack up rigs, one of which AIDEA participated in the financing of, are significant. So they have been in preliminary discussions with producers and Cook Inlet utilities to get a sense of where the market is heading. There is reason to be optimistic that gas could be available. Before they commit to Cook Inlet that will all be vetted through a commercial solicitation to determine what gas is available and if it's available at a level of security that is adequate for Interior utilities.

MR. PARADY offered that the gas supply team - DCCED, AIDEA, AEA, and DNR - is developing the best information to understand the Cook Inlet gas situation. The question they have been asked is how they can be confident with the gas supply today in relation to the brown-outs people worried about three years ago and the answer is a function of Cook Inlet Natural Gas Storage Alaska (CINGSA) that has improved gas storage, a function of incentives that have been operating in Cook Inlet. It is also a function of the success of independent operators that have come into play beginning with Hilcorp, which acquired Marathon and Chevron assets. There have been 75 new oil and gas exploration and development wells drilled since 2009; 36 have been completed as gas wells, an average of 7.2 new wells a year. The Kenai Loop gas field was discovered in June 2011 with sustained production beginning in January 2012. Gas reserve additions have come from production enhancements, compression additions, new completions

of high probability pay intervals, and new completions of potential pay intervals. And then the DNR analysis to this point has excluded the Kitchen Lights and Cosmopolitan gas discoveries, both of which are in development but are not yet producing.

So, one of the questions to be ascertained in the gas supply agreement will be essentially the deliverability of gas to the pipe for the Fairbanks demand and sustainability of the gas reserves. Mr. Parady said the major utility operator in the Anchorage area, Enstar, has gas supply under contract through 2018 and is looking to place contracts for their forward demand. Gas supply will be put under contract for Fairbanks through the utilities - FNG, IGU, and GVEA - for a 5-10 year period. It is worth contemplating that this project is viewed as a bridge to a future gas line, but as the uncertainties are weighed, decisions will have to be made about the longevity of terms they seek from the market in placing the contracts. Those will be private sector decisions rather than AIDEA decisions.

SENATOR COGHILL said IGU is not private sector.

MR. PARADY clarified that a better way to say that is that they are non-AIDEA.

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MR. SZYMONIAK said slides 7 & 8 show the project plan for the North Slope that has been pursued for the last two years and the one after showed the Cook Inlet alternative. He next reviewed the value chain to describe AIDEA's approach to allowing the private parties to put together the financing.

For the North Slope LNG project, two of the Interior utilities came to the project with executed natural gas supply contracts in hand. AIDEA anticipated using one of those contracts through project development. For LNG production, AIDEA's plan was to partner with the private developer. They went through a competitive process and selected MWH and then spent a significant period of time advancing the project with it. Legally, that resulted in a concession agreement on which AIDEA would own the LNG plant and MWH's private investor they brought to the project would finance, operate and construct the LNG plant. MWH would lead the process under the concession agreement; they were responsible for getting the construction contract, the operating contract, and signing the offtake agreements with the utilities. Once the concession agreement was signed, AIDEA took the backseat and hoped to assist and

facilitate. Ultimately the costs came in too high for this project and the contracts with the utilities were not signed and it did not make it through AIDEA's due diligence process.

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AIDEA explored the trucking component and discussed owning some trailers with the utilities, but at no point did AIDEA have any interest in operating the trucking operation. They expected that component to be resolved through a competitive private market.

The three Interior Utilities - Fairbanks Natural Gas, Interior Gas Utility and Golden Valley Electric - cooperated on LNG storage and regasification and worked together to plan the entire value chain.

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MR. SZYMONIAK said the Cook Inlet LNG alternative is visually much the same project with the big difference being that the Cook Inlet alternative has a gas supply in hand. AIDEA will evaluate the proposed projects and determine which ones are the most promising, move through the competitive process into negotiation and then determine which one is the best partner to finance.

The utilities will be engaged the entire way through, he said. While AIDEA is working with DCCED to explore and secure gas supply and go through the RFP process for liquefaction, it is known that all the way through that it's not going to be AIDEA that owns or even signs the contracts with the private developers. It will be the utilities. AIDEA is playing a facilitating role to aggregate and rationalize the demand from the three Interior utilities and come up with one commercial approach as opposed to forcing the private developers to try to negotiate three individual gas supply and LNG capacity agreements with three different utilities.

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MR. SZYMONIAK moved to the transportation pieces saying the options were trucking or railroad and at this point their plan is to use trucks. Just like the North Slope, they expect the trucking cost to be much lower than off the North Slope, but they are working with the Railroad to determine if rail is a cost effective alternative. He noted that SB 50 includes provision for AIDEA to finance a small diameter pipeline. If that is the case it will replace the LNG production as well as the transportation. The mechanism for that to happen would be through this competitive RFP process that is exclusively open to

pipeline developers. If a developer can demonstrate that it is the preferred means to transport natural gas to Fairbanks, AIDEA will work with them and try to come to a financing agreement where the private developer builds and operates the pipeline with some AIDEA financing to achieve the goals of the IEP. The limit of that pipeline is 12 inches or less.

SENATOR MICCICHE said it not only cuts out the LNG production and transportation, but it also cuts out the storage and re-gas facilities unless there was a supplemental system with the existing liquefaction capacity.

MR. SZYMONIAK said that was correct.

CHAIR GIESSEL said AIDEA and DCCED are state government and were also working together in competitive solicitation for contracts and she was uncomfortable with government stepping in to contract negotiations that should be done by the utilities.

MR. PARADY said that AIDEA's role is to facilitate that ongoing process with the utilities. Looking at the history of energy supply issues in the Interior, it is arguable that the private market has not succeeded in supplying what amounts to relatively small levels of demand. One of AIDEA's successes to this point with this project is the Pentax acquisition, which is under due diligence review now, where there is an opportunity to combine the two utilities - FNG and IGU - and not have two separate entities operating, not have two separate administrative structures, two different metering systems, and two different warehouse systems. The market, itself, is small and combining the two entities is a success.

CHAIR GIESSEL noted that the state gives credits and incentives to develop the gas supply in Cook Inlet and now it is stepping in and negotiating contracts with those same folks. It doesn't sound too free "market-ish."

MR. PARADY responded that, however it sounds to her, that AIDEA is applying its analytical skills and its investment tools to support the market. It is not trying to bypass the private sector; it is trying to find a way to help the system rationalize itself.

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SENATOR STOLTZE said he was wrapped around the HB 132 argument and asked how a competing gas line fits in.

CHAIR GIESSEL said time has run out and others still want to testify so she would continue the discussion of SB 50 at a later time.

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CHAIR GIESSEL adjourned the Senate Resources Committee at 5:00 p.m.