

ALASKA STATE LEGISLATURE
SENATE RESOURCES STANDING COMMITTEE

April 14, 2015

3:30 p.m.

MEMBERS PRESENT

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

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."

- HEARD & HELD

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 (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
04/10/15 (S) Heard & Held
04/10/15 (S) MINUTE(RES)
04/14/15 (S) RES AT 3:30 PM FAHRENKAMP 203

WITNESS REGISTER

WILLIAM BARRON, representing himself
Eagle River, Alaska

POSITION STATEMENT: Commented on delivering energy to the Interior relative to SB 50.

GENE THERRIAULT, Deputy Director
Energy Policy
Alaska Energy Authority (AEA)
Fairbanks, Alaska

POSITION STATEMENT: Supported SB 50.

MARK MYERS, Commissioner
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Commented on Interior energy issues relative to SB 50.

PAUL DECKER, Acting Director
Division of Oil and Gas
Department of Natural Resources (DNR)
Anchorage, Alaska

POSITION STATEMENT: Commented on Interior energy issues relative to SB 50.

NICK SZYMONIAK, Deputy Commissioner
Alaska Industrial, Development Export Authority (AIDEA)
Anchorage, Alaska

POSITION STATEMENT: Supported SB 50.

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

Anchorage, Alaska
POSITION STATEMENT: Supported SB 50.

JOHN COLLETTE
Alaska Works Engineering
Fairbanks, Alaska
POSITION STATEMENT: Supported SB 50.

MERRICK PIERCE, representing himself
Fairbanks, Alaska
POSITION STATEMENT: Supported SB 50.

JOMO STEWART, Energy Project Manager
Fairbanks Economic Development Corporation
Fairbanks, Alaska
POSITION STATEMENT: Supported SB 50 and Senator Coghill's proposed amendment.

GARY NEWMAN, representing himself
Fairbanks, Alaska
POSITION STATEMENT: Supported SB 50 and Senator Coghill's amendment.

DAN SPILLANE, representing himself
Fairbanks, Alaska
POSITION STATEMENT: Related how bad the air quality is in Fairbanks relative to SB 50.

PAMELA THROOP, representing herself
Fairbanks, Alaska
POSITION STATEMENT: Supported SB 50.

TED LEONARD, Director Emeritus
Alaska Industrial Development and Export Authority (AIDEA)
Anchorage, Alaska
POSITION STATEMENT: Supported SB 50.

ACTION NARRATIVE

[3:30:22 PM](#)

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 Coghill, Costello, Micciche and Chair Giessel.

[3:30:50 PM](#)

SENATOR STOLTZE joined the committee.

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

3:31:50 PM

CHAIR GIESSEL announced the consideration of SB 50 [CSSB 50(NRG) was before the committee]. She invited Mr. Barron to discuss how this legislation could potentially affect the Cook Inlet Basin.

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SENATOR WIELECHOWSKI joined the committee.

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WILLIAM BARRON [former director for the Division of Oil and Gas], representing himself, Eagle River, Alaska, said delivering energy to the Interior is important but complicated. He said the general market is relatively small and natural gas infrastructure is immature or non-existent. These two factors combine an exasperatingly difficult business model by combining elevated up front capital costs and unknown operating costs, all to be covered by a small yet undetermined customer base and still allowing a reasonable rate of return for a utility. These market entry barriers must be thoroughly understood and addressed before any project will be successful.

He said his comments would cover three primary areas:

1. AIDEA's role
2. Unintended consequences associated with broad AIDEA roles
3. The complicated Cook Inlet market

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What is the role of AIDEA in the quest to deliver lower cost energy? Is it a financial institution which can supply low interest loans and creative repayment schedules to enhance project economics or is it a facilitator of commercial agreements between producers and utilities? Can it be used as an owner in part or all of the supply chain or is it some entangled blend of all three?

This leads to the second issue: Has there been an assessment of cause and effect or unintended consequences associated with AIDEA involvement beyond the role of a funding source? For example, how will the producers and utilities react? Will government entities be advocating for a city utility the same product needed by others? How will the consumers be protected if the "government utility" isn't a regulated utility? How will the gas industry respond if AIDEA is a working interest owner competing to sell into the same closed market? If AIDEA is an

owner, is the state prepared to assume ongoing capital and operating costs and obligations, including abandonment liabilities? Fundamentally, is the state by coincidence or by design becoming an oil and gas transmission and distribution company to be in competition with the private sector? If a private company is a producer and owner in the manufacturing plant, the transmission system and/or the distribution system, what action would the Department of Law take, and if AIDEA is in the same position, couldn't the action be the same?

[3:36:38 PM](#)

Third, the Cook Inlet supply and demand model is complicated. The recent balance is a result of capital infusion and negotiation between producers and utilities with RCA oversight. The supply is not just about reserves; it is also about sustained deliverability. As current supply contracts sunset, people should expect another perceived shortfall.

The Hilcorp consent agreement expires in a few years as do several of the tax credits targeting the Cook Inlet and it's difficult to predict the combined impact of those events. New markets for gas can spur new exploration and development, but those developments will be challenged. They will probably be smaller and more costly and will press any predetermined market threshold.

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MR. BARRON said they know the goal, but what is the project? A thorough assessment of all potential options - their schedule, their scope, budgets and the cost to consumers - should be completed before making any determination of final project selection. The state has already spent over [\$12] million on an aborted North Slope project; it can't afford to repeat that.

SENATOR COSTELLO said she also was concerned about inserting government into a private solution and asked what it would look like with more private sector participation.

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MR. BARRON explained that he was trying to articulate that there are a lot of options, but his main thrust is what the role of AIDEA is in any of these ventures. AIDEA is a state financially backed institution that can create loan opportunities, creative financing and payback of those loans to private sector companies that will enhance the net present value of those projects simply because they have ways of creating new financial returns. To him

that is a very positive role for a state-funded organization to maintain.

Once AIDEA steps out of that role as a financial institution, the role becomes very complicated and has significant "knock-on effects" to the private sector, which would be noted if and when a state-funded agency becomes more involved beyond just a financial institution. His question is: Is the state prepared to become an owner of physical assets rather than a financial organization supporting the acquisition and development of those activities?

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SENATOR COGHILL asked him to expound on the difficulties of getting a gas contract for the Interior.

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MR. BARRON responded that there are a couple of differences between the North Slope activities that were originally sponsored by SB 23 and going into the Cook Inlet. The difference is commercially that there was no fore-thought of bringing natural gas from the North Slope to Fairbanks area and the Cook Inlet producers were willing to try to get gas into Fairbanks and have sent supplies to FNG. The problem is that the market of Fairbanks is so small that there wasn't enough critical mass to be signed up to really drive the commercial business into Fairbanks.

When the Kenai gas field was brought on in the 1960s right off the heels of the Swanson River discovery in 1957, that created a huge supply with a very small demand, and as the reserves of Kenai, Beaver Creek, Beluga River, North Cook and utilities in Anchorage have been supplied over time, those major big fields are beginning to wain and the smaller fields now require increased capital, and are much more technically complicated to advance.

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The Cook Inlet Basin consists of disconnected sands that are hard to trace and identify their overall capacity. Even if a well is drilled, its capacity is not known until a long-term production test is conducted. On the market side, utilities need to have something that is robust and deliverability of high volumes over a short period of time as well as having longevity.

The problem on the reservoir side is that one won't know how big some of these are or how much they can deliver when they need to

be delivered until a contract is secured that is price sensitive to those developments. As the bigger fields wane, smaller fields will have to be brought to bear. This is what is happening with the Hilcorp investments in the Cook Inlet. This is not usual as every major sunset of major contracts in Southcentral has had a surge of activity to bring new reserves and new deliverability to the market to satisfy those contracts. Part of the problem is being able to satisfy both the near term and the long term requirements of Southcentral Alaska; the needs of the utilities and Fairbanks and future markets are going to be more technically complicated and higher priced. The development of these smaller gas fields is going to be greater than the historic costs of the major gas fields. If the cost of those developments are elevated over what has been the historical basis, it is almost a business conundrum of how to bring gas into a new market that has immature distribution systems without creating a subsidized environment for that market, and therefore, possibly a subsidized industry in the Cook Inlet. So, the independents and the new producers are trying to figure out how to deal with the state-subsidized organization.

SENATOR COGHILL agreed that the market is complex and would have to be subsidized and stated that is why Fairbanks needs this project. Fairbanks would have been the first to get gas off the North Slope and probably the last one to get out of a contract like that, but for gas from Southcentral, Fairbanks would be the last ones into a contract and the first ones to be left out of one.

Along the way, he hears that a subsidized market is something that is going to have to happen; AIDEA's role, for example - whether it's the Red Dog mine or a jack-up rig in the Kenai - is to help industry with ways to get a head start. The Kenai area's storage facilities allowed for ways to get the industry revved back up again, which worked pretty well. So, they are looking for ways to make sure that this little project, even if it has some subsidy level to it, is equitable to what has been done before in Alaska and still does not have unintended consequences of leaving people high and dry. He sees this as a bridge project before North Slope gas arrives.

SENATOR COGHILL said he understood that a lot of contracts are coming up in the basin in 2018 and asked if that is a barrier or a positive.

MR. BARRON answered that he wasn't aware of how many contracts are coming up, but the contracts Hilcorp signed were through

2018, primarily with Enstar. A lot of contracts will sunset in and around that timeframe. Furie, BlueCrest Energy and a few other new players have some potential reserves that they would like to bring to market and they have yet to be fully proven and developed, but those will be at an elevated cost. He supports getting lower cost energy to Fairbanks, but he wanted to encourage AIDEA to look at all the possibilities, recognizing that if there are going to be subsidies, they need to make sure that those don't create an unfair business model that will preclude the private sector from engaging in exploration and development and building or owning the assets to supply the customers.

SENATOR COGHILL said his point is well taken and he will try to make sure that language stays open to industry - even in Fairbanks.

3:52:05 PM

GENE THERRIault, Deputy Director, Energy Policy, Alaska Energy Authority (AEA), Fairbanks, Alaska, said it would be best for Commissioner Myers to start by responding to the issue of the ability of the Cook Inlet Basin to eventually produce the molecules in a volume that could satisfy not only the demand in Cook Inlet but also the small quantity it would take to serve the Interior. He said the existing utility demand in the Interior is less than 1 bcf/yr. As the distribution system is built out and three utilities - Fairbanks Natural Gas (FNG) Distribution, Interior Gas Utilities (IGU) Distribution for space heat and Golden Valley Electric Association (GVEA) - are brought on, it is anticipated that demand would increase to 10 bcf/yr. in 10 years. Cook Inlet demand now is 90-100 bcf/yr., a relatively small amount.

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MARK MYERS, Commissioner, Department of Natural Resources (DNR), Anchorage, Alaska, thanked Mr. Barron for his past service as director of the Division of Oil and Gas. "He is a real expert on Cook Inlet," Commissioner Myers said. He stated that they really want to get gas to Fairbanks at affordable prices, but also make sure that Anchorage is adequately supplied. He said he had provided advice to various legislators on various Cook Inlet Senate bills.

He related that Cook Inlet's undiscovered resource, based on a 2011 assessment, showed 19 tcf of gas, 14 tcf of which are conventional, non-coal, non-other sources of gas. That is a very large volume of natural gas, but it's not behind a pipe. In the

28 fields that produce oil and gas in the Cook Inlet only 1 tcf of proven reserves is economic and available for production. About 355 bcf of additional gas is a resource in later and lower reserve categories.

COMMISSIONER MYERS stated that as Mr. Barron said, people do not produce reserves until there is a known market, and exploration isn't typically done until there is a market, either. Cook Inlet has a small market, the major uses being for utility gas and LNG export. Traditionally, the state has viewed that supply as: more demand is better for the basin given the resource base that is there and the companies that are exploring. For instance, the LNG export license was renewed for 40 bcf for a two-year period; last year about 17 bcf were exported out of the basin. That is a good thing, because it will lead to more market, more exploration and more development.

He explained that pricing for LNG is very different than the pricing that is regulated by the Regulator Commission of Alaska (RCA) for utilities. So, there is already a significant amount of non-regulated gas that is leaving the basin. Generally, support for export has come from the Department of Energy in approving that export license, the state in supporting that license and from the producers generally in the Cook Inlet.

The Fairbanks market is about 1 percent of the current instate demand. To the question of: Is the supply adequate and is additional demand a good thing in the basin or a bad thing? Generally and historically, the state has viewed it as a good thing, because they believe the resource assessments show the gas is there. How much it will cost to develop and produce economically will depend on the market. Therefore, AIDEA's going with an RFI request for competitive solicitation to gauge the market price that would take gas to Fairbanks is a very prudent approach. The drilling is only to keep up with the contractual obligations of the companies with the exception of exporting gas.

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COMMISSIONER MYERS said the other body is considering supporting more fertilizer production from the Agrium plant under the same theory that more demand equals a better commercial market for folks. This has been the historical viewpoint, and again, this amount of gas to Fairbanks would probably be a good thing for the market provided that the market is able to deliver it at a reasonable price.

He thought a lot of questions in Mr. Barron's testimony were about AIDEA's structure being commercial or a state-subsidized structure and then the question of making a gas to Fairbanks project affordable. The Fairbanks Natural Gas program has been going on for 20 years and it has not seen a significant amount of market expansion in that time from the 1 bcf/yr. level. So, Commissioner Myers said, commercial markets really have not responded to increased supply to Fairbanks. The reasons are that it's a very low density market and the infrastructure is not there to build out. It hasn't been built because of the cost and low density of market, the supply and the distances. Realistically, aggregation of demand is necessary to get a request for enough gas to get explorers interested in exploring or developers interested in developing additional reserves.

He noted that gas to Fairbanks serves a lot of purposes. In addition to lowering the cost of energy, it provides a cleaner source of fuel than much of the wood that is being burned and it will address the urgency behind air quality and health issues in Fairbanks. It comes down to answering the question of what the commercial market can deliver to a 1 bcf proposal that scales up to 10 bcf over a decade.

[4:02:34 PM](#)

PAUL DECKER, Acting Director, Division of Oil and Gas, Department of Natural Resources (DNR), Anchorage, Alaska, agreed that about 1 tcf/gas is remaining in the proven and probable categories of reserves in the basin. It is a best estimate gleaned from making a series of incremental estimates from 2009 onward and he is more comfortable with .8 tcf to 1.3 tcf/gas. Currently, all engineering data is being reviewed to get a better estimate and that will be available in mid-to-late August.

He said that recent exploration successes in the basin demonstrate that additional fields remain to be discovered and brought on line. Some are fairly small like the Kenai Loop and others appear to be larger like the jack-up rig at Kitchen Lights and Cosmopolitan. It would be a little premature to assume that all of those fields are going to be equally challenged economically as sources of affordable gas for the IEP. The IEP leadership's goal of putting out a competitive solicitation or request for information (RFI) to find out what the market will bear is the right approach. Those numbers will speak for themselves.

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CHAIR GIESSEL said she wanted it on the record that this committee understands the imperative nature of getting gas to Fairbanks and they want to facilitate in getting it there, but it's a question of where it can be economically obtained and the role of AIDEA in it.

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MR. THERRIAULT said when he first expected 10 years for build out and ramping up to a total of about 9.5 bcf/year for the distribution and demand in Fairbanks, he expected using 80 bcf/gas, which is equivalent to one year of Cook Inlet's current demand, and AIDEA's role in putting those pieces together is critical. Removing the restriction on gas molecules coming from just the North Slope doesn't mean that the North Slope is not still potentially the source that would supply Interior Alaska. Going out with a new RFP could provide another opportunity for producers to sharpen their pencils and still create potential competition for delivery off of the North Slope. This legislation is just asking to not be restricted to just the North Slope as they utilize the tools that the legislature proved two years ago.

[4:09:43 PM](#)

SENATOR MICCICHE said his 10-year build out was very aggressive and asked how he arrived at that number considering what it would take to even begin going from 1 bcf to as much as 5 mcf in the first three years.

MR. THERRIAULT replied that they used conservative numbers, but he would let Mr. Szymoniak, who produced the graph, answer that question.

[4:10:28 PM](#)

NICK SZYMONIAK, Deputy Commissioner, Alaska Industrial, Development Export Authority (AIDEA), answered that it is a fairly aggressive build out that is based on analysis performed by Cardno ENTRIX, Corporation, in 2013 for AIDEA. He said that they are constantly refining and working with the utilities and the local community to better understand what the demand profile looks like. While it is an aggressive timeline, they believe it to be reasonable. He noted that in the early years they expect 2-3 bcf to go instantaneously to Golden Valley Electric Association (GVEA), which helps get that quick ramp up and they believe that AIDEA has an important role to play to help soften that risk on the private investors.

SENATOR MICCICHE asked him to share that analysis saying overestimating is not in their favor in thinking about supply challenges from Cook Inlet.

MR. SZYMONIAK replied that they are fully aware and sensitive to the demand projections and can share the demand projection by utility for the 10 years that constitute the 80 bcf as well as the Cardno ENTRIX report.

CHAIR GIESSEL commented that as of about 10 days ago, the auto-fill pricing for home heating oil in Fairbanks was \$3.04 a gallon and asked if he was concerned about the number of people who may not want to convert to natural gas at this time of low oil prices.

MR. SZYMONIAK replied that AIDEA is concerned, but oil prices won't necessarily stay low and this project is a bit of a hedge to protect Fairbanks against higher oil prices in the future. They don't want to let off the gas pedal just because of a temporary energy relief concept for Fairbanks. Because of the analysis produced by Cardno, there was a follow-up analysis, which they will also supply to the committee that looked at the sensitivity of conversion rates to different prices of natural gas. That analysis held the price of fuel oil static while changing the prices of natural gas to determine what conversion rates to expect at different natural gas prices and found significant conversions to natural gas even at softer oil prices.

CHAIR GIESSEL said it seems like a rational consumer would consider the cost of swapping from oil to gas and asked if he had taken into account the closing of Flint Hills.

MR. SZYMONIAK answered yes and that Flint Hills is not in any of the base scenarios.

[4:15:31 PM](#)

FRED PARADY, Deputy Commissioner, Department of Commerce, Community and Economic Development (DCCED), remarked that two prongs drive conversion. One is the particulate matter (PM) concern which may involve local government decision-making in support of that conversion and the other is what Mr. Therriault described.

CHAIR GIESSEL asked if he was saying that local government might require residences to convert.

MR. PARADY replied that he would leave that to local government, but it is within the possible tool kit if one considers the fact that Fairbanks is a non-attainment area that will impede permitting abilities of different projects going forward. It is a health issue that will have to be addressed in some fashion.

SENATOR MICCICHE asked if he was willing to share his conversion model.

MR. THERRIALUT responded that the Cardno report is on their website; he could also supply hard copies.

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SENATOR MICCICHE said prices can change dramatically in the Cook Inlet but the conversion rate in the model happens at a certain price point and has an age sensitivity and asked if the model scaled the price oil per mmbtu with potential changes in the gas prices as supply either tightens or demand increases.

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MR. THERRIAULT replied that the model, put together from surveys and consumer focus groups, was constructed to show a scale of consumer actions as the price of oil or gas goes up or down. The expectation was that 75 percent of consumers would actually convert as the pipe goes down the street in the subdivision where they live. Consumers can make different decisions based on the age of their existing boilers and the cost of conversion, which is estimated to be about \$2500 compared to \$10,000 or \$11,000 for a complete swap out for domestic heat and hot water. When the Interior Gas Utilities (IGU) went out with a model they actually asked for 50 homes to volunteer to have an audit done on their actual infrastructure. Of those 50 volunteers, the conversion could be achieved rather than a complete swap out. A lot of housing was built 30 or 40 years ago, so a number of those original boilers had been swapped out in the last 10 years leading to the possibility for them to be converted more economically.

SENATOR MICCICHE said he ran some numbers on the 9.5 bcf/yr. and the residential potential is about 1 bcf. It looks like the big conversions will be on the industrial side and asked if there was any offset in potential federal financing on the industrial side.

MR. THERRIAULT said he wasn't aware of any federal benefit that can come into play, but another separate piece of legislation targets business conversions. He explained that the majority of

the light industrial and business use in the Fairbanks North Star Borough is in Fairbanks and as quickly as those potential users could convert the better. The legislation is a mechanism by which the local government can assist businesses by offering a low cost source of financing and allowing the payback of that loan to be stretched out over time. It has a zero fiscal note and is asking the legislature to just allow the local government to have the mechanism. It applies to any energy efficiency a local business wants to implement but it has a particular use in Fairbanks and they believe the cities in the borough will be the local governments that fully develop the mechanism and try it out.

[4:22:46 PM](#)

SENATOR COGHILL said the Fairbanks North Star Borough talks about various ways to make sure the houses convert.

MR. THERRIAULT added the bill mentions using PACE financing for local government to tap into possible federal funds.

[4:24:40 PM](#)

JOHN COLLETTE, Alaska Works Engineering, Fairbanks, Alaska, supported SB 50. He was asked by the state to look at moving natural gas away from the Railbelt area, a very complicated task, and he didn't want to see the legislature at this time tie the hands of AIDEA. Fairbanks is in a crisis situation and AIDEA is the agency the state relies on for making deals with private enterprise and they are good organization.

[4:25:53 PM](#)

MERRICK PIERCE, representing himself, Fairbanks, Alaska, supported SB 50. He said the air quality in Fairbanks and North Pole is so badly degraded due to lack of clean energy that morbidity and mortality has increased among the 100,000 residents of the area. The legislature has a constitutional as well as a moral imperative to act consistent with Article VII, Section 4, in addition to the very large body of scientific evidence that documents harm to human health from particulate matter. A comprehensive study was just published by the British Medical Journal in March 2015 and its conclusion was that particulate air pollutants have a marked and close correlation with emissions which lead to stroke. He appreciated being able to look at all ideas that could be used to get affordable energy to Fairbanks.

[4:28:05 PM](#)

JOMO STEWART, Energy Project Manager, Fairbanks Economic Development Corporation, Fairbanks, Alaska, supported SB 50 as currently drafted and Senator Coghill's proposed amendment.

GARY NEWMAN, representing himself, Fairbanks, Alaska, supported SB 50 and Senator Coghill's amendment. He said he serves on the University of Alaska Fairbanks (UAF) Master Plan Committee and is familiar with the power plant project that people are working on to bring costs down. He has also been an active member and a candidate for the board of GVEA. He said he didn't support HB 105, as amended.

MR. NEWMAN also said AIDEA actually exhibited a bit of due diligence in pulling out of the North Slope project because it didn't meet the criteria of supplying \$15/mcf delivered to the home. GVEA said it wouldn't take all the risk. The goal has been to provide relief to Fairbanks and AIDEA is trying to make sure it is affordable. There has been a slight reprieve with oil prices, but \$3/gallon is still kind of high and he is hoping to get an equivalent of about \$2/gallon with natural gas or propane. Finally, he said the argument that Fairbanks will constrain LNG for Anchorage and Kenai is a "paper tiger."

CHAIR GIESSEL said he brought up the \$15/mcf price point that seems to be the threshold and asked what if the new idea can't meet that? Is that a deal breaker, again?

MR. NEWMAN replied that won't be known until the experts go through the effort. The bar of getting affordable energy seems to be moving and he said, "Let's continue to move the bar."

[4:31:58 PM](#)

DAN SPILLANE, representing himself, Fairbanks, Alaska, related how bad the air quality is in Fairbanks. He urged them to not pigeon-hole AIDEA. He and his wife are both business owners in Fairbanks and a gasline would be a welcome relief for them as well as the economic benefit of all of Fairbanks. He related that his daughter was born with congenital heart defects and part of her continued health and welfare is proper exercise. The family goes cross country skiing at least four times a week, but sometimes the air quality gets so bad their eyes will get red and their lungs will hurt.

[4:33:24 PM](#)

PAMELA THROOP, representing herself, Fairbanks, Alaska, supported SB 50. She has been a commercial real estate broker and developer for 20 years. She said that many businesses would

love to locate in Fairbanks, but they often walk away saying that the cost of doing business is way too high. In the last three or four months seven or eight businesses are closing and leaving town or moving to Anchorage. Fairbanks is also experiencing increasing foreclosures and the health problem. She wanted AIDEA to have a broad enough scope to be able to look at anything good for them, whether it's the pipeline from Cook Inlet or propane.

[4:36:10 PM](#)

CHAIR GIESSEL said the legislature talks a lot about diversifying the economy and everyone sitting at the Resources table understands that resources, especially energy resources, are what is going to facilitate that. She remarked that Iceland found a very low cost energy source and now it has an aluminum refining company with raw materials being shipped from South America. So, she knows the difference that affordable energy can make.

[4:36:59 PM](#)

MR. PARADY said AIDEA's role in this quest is to deliver low cost energy. Yes, it is a financial institution and as such, its role is to provide a combination of financing tools in a manner that benefits Interior consumers and third party participants. In addition to low interest rates and flexible repayment schedules, AIDEA's IEP financing tools are able to assume market risks that the private sector might not otherwise take.

Is it a facilitator of commercial agreements between producers and utilities? The answer is yes. The IEP project team is working to facilitate commercial agreements. The heart of this bill is to change four words which say that that supply was from the North Slope and to open it to other alternatives such as Cook Inlet, flex steel pipe and propane, to initiate the commercial process through a formal solicitation for natural gas and liquefaction, and to facilitate preliminary negotiations with Cook Inlet producers and liquefaction providers on behalf of the Interior utilities.

Through these three roles AIDEA is working to rationalize the process and support development on commercial terms, but it will not directly enter into the commercial agreements beyond its financial role.

[4:39:52 PM](#)

CHAIR GIESSEL said the fundamental question is that a private sector buyer wanted to move forward with an LNG facility

(purchase of Pentex Exploration, Inc.) and was stopped by the Attorney General (AG). Then AIDEA stepped in and she asked how that fits the role of AIDEA.

MR. PARADY answered that the AG stepped in stems from the original Hilcorp consent decree to which those parties agreed (in the RCA review) and that original letter was written by the prior AG rather than the present one. From AIDEA's perspective, they are not interfering in buying the parent, Pentex and it may still go forward. If it does go forward on its own merits, then AIDEA will work with that entity to rationalize the distribution system in Fairbanks. It is an accomplishment of AIDEA that in moving to purchase Pentex, it has afforded the community of Fairbanks the opportunity to have a single utility. He commented that nothing makes less sense to him than to have a postage stamp small market that is fragmented in two pieces. By combining it, Fairbanks will have one warehouse, one administrative staff, one metering system, and it just makes sense. It does not preclude Hilcorp's proposed acquisition of FNG.

[4:41:38 PM](#)

CHAIR GIESSEL said it sounds like he is describing a utility company: the purchasing and metering.

MR. PARADY responded that AIDEA does not intend to operate a utility and will divest those assets at the appropriate time.

CHAIR GIESSEL asked if AIDEA will hold gas reserves in Cook Inlet.

MR. PARADY answered no. The role of AIDEA is having capital to solve any number of problems, but that role is in support of the market.

SENATOR MICCICHE said AIDEA didn't intend to own any gas reserves, but then he said it intends if necessary to own equity in gas reserves, and that seems to be the same thing.

MR. PARADY replied that the answer is no; AIDEA does not intend to own gas reserves in the ground. He suggested there may be a role for AIDEA to play with its patient capital in the supply chain, but not in the ownership of natural gas reserves.

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CHAIR GIESSEL said AIDEA is conducting a \$400,000 study with REI relating to a potential LNG facility in Cook Inlet and that, again, seems like a complex relationship.

MR. PARADY answered that was outside his area of expertise, but Ted Leonard could answer that.

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TED LEONARD, Director Emeritus, Alaska Industrial Development and Export Authority (AIDEA), answered that the chair is correct; AIDEA has a reimbursement agreement with REI to look at the financing of an LNG export facility. AIDEA would have the ability as part of this financing to take a preferred ownership position in it to provide the long-term patient capital, but that's only one of the options they are looking at - if that project goes forward. It is in the very early stages.

CHAIR GIESSEL said that AIDEA is involved with many complex projects: an LNG facility when there is already one in Cook Inlet and a gas field resource basin that has complex structures. She wondered about their great involvement in Cook Inlet.

MR. LEONARD responded that AIDEA is trying to ensure and assist in the development of Cook Inlet through investments they have made before taking into account all the complexities that are being discussed.

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MR. PARADY said Mr. Barron's last questions was if AIDEA is some entangled blend of all three. He would simply say that AIDEA is a reasonable combination of those tools. It has been responsive and nimble; it is up to the challenges of the project which are complicated. That is why they are before the legislature now seeking a geographic diversification option.

SENATOR MICCICHE said he was worried, because two years ago he tried to make an amendment that removed the North Slope language, because he believed that project was \$100 million under-capitalized. A non-public fight killed that amendment, but it took AIDEA "more money than it took me on a napkin to figure it out how under-capitalized it was. Now here we are two years later. He believes AIDEA has an appropriate role in projects such as these, but he felt that political motivation does not normally arrive at the same answer that a private entity would, because of the push for a political solution.

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MR. PARADY responded that the answer isn't self-evident; the process needs to be worked through before the answer will become clear. It's possible they will still end up back on the North Slope. A particular set of circumstances led to a set of numbers that didn't work for delivery. It's possible that could be revisited with a different team of partners that could come up with a lower number. It's possible Cook Inlet works; it's possible that propane works; and the pipeline needs to be evaluated. AIDEA has found itself tied to the North Slope in that due diligence process. That is why they are seeking flexibility. He simply didn't believe that politics can trump numbers when it comes to operation of an energy system. Politics has a role in any aspect of society, but not in the mechanics of solving this particular problem.

CHAIR GIESSEL remarked that the North Slope didn't pencil out and asked how he could justify the buildout happening without a gas contract.

MR. THERRIAULT answered that the proposal is to go out with an RFI to private sector players that have molecules to bring to the infrastructure as well as an RFP for private sector players that want to propose the infrastructure liquefaction, but it would be an open and competitive process for private sector players. That process will happen between now and the middle of summer.

CHAIR GIESSEL asked if he had a timeframe for the stage-gates he will be going through.

MR. THERRIAULT replied that the RFI and RFP need to have responses back in 1.5 to 2 months and then the proposals would be narrowed down to a smaller number that could work for evaluation. It could be from the north or the south or a combination that an entity that has gas molecules partnering with another entity that wants to build infrastructure - and both are looking for access to the patient capital or an entity that has access to the gas molecules and infrastructure. They are also open to a propane proposal or someone that wants to deliver via pipe. The language in the bill would allow them to look at all of the above. He said the number of \$15 gets thrown out, but the end isn't quite that rigid; it is a range.

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CHAIR GIESSEL said burner tip price was mentioned to be \$15 and that's a pretty aggressive price goal.

MR. THERRIAULT responded that's comparable to about \$2 fuel oil at the time and now the price of competing fuel has come down.

SENATOR STOLTZE said two Interior folks suggested they are violating health and welfare provisions of the constitution: Article 7, Section 4. He asked if this is an official position and a litigation concern.

MR. THERRIAULT replied there is no suggestion of litigation. The Environmental Protection Agency (EPA) is watching the Interior very closely and allowing Fairbanks slack in coming into compliance. If the project is further delayed by the legislature, the EPA may feel more compelled to force the community into a compliance effort.

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SENATOR MICCICHE remarked that he couldn't believe that a small bore pipeline was not one of the solutions in the last 20 years and while he supported Interior senators, he saw a couple of problems in looking at the North Slope LNG business model. They talk about combining into one utility, yet they have an LNG production business model, a transportation trucking business model and a re-gas, storage and distribution model. The LNG production model in Cook Inlet in his view eliminates the potential for the best price for a competitive bid option to pipe, because someone will control the supply and that worries him. His main concern with the North Slope and down the Dalton Highway option was not under capitalization, but with what just happened when the Dalton Highway was shut down. The long term value of this project is cents on the dollar. A Richardson Highway route small bore pipeline and Parks Highway route with AKLNG would solve the problem out into the next generation. He asked them to look at that approach instead of a piecemeal approach. He would rather subsidize a real solution.

SENATOR COGHILL agreed with Senator Stoltze that they are looking for an economic solution not a constitutional mandate.

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SENATOR WIELECHOWSKI commented that he had been here for nine sessions and they had talked about getting low cost energy for Fairbanks every single year. He thought they needed to pass something that gives AIDEA authority instead of micromanaging for another nine years and leaving Fairbanks to die on the vine.

SENATOR GIESSEL closed public testimony and held SB 50 in committee.

ADJOURNMENT

5:04:44 PM

CHAIR GIESSEL adjourned the Senate Resources Committee meeting at 5:04 p.m.