ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON ENERGY
January 30, 2018
10:16 a.m.

MEMBERS PRESENT

Representative Adam Wool, Chair
Representative Ivy Spohnholz, Vice Chair
Representative Matt Claman
Representative DeLena Johnson
Representative Jennifer Johnston
Representative George Rauscher

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

PRESENTATION: INTERIOR ENERGY PROJECT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JOMO STEWART, General Manager
Interior Gas Utility
Fairbanks, Alaska
POSITION STATEMENT: Presented a PowerPoint titled "Interior Energy Project."

GENE THERRIAULT
Alaska Industrial Development and Export Authority (AIDEA)
Fairbanks, Alaska
POSITION STATEMENT: Presented a PowerPoint titled "Interior Energy Project."

DAN BRITTON
Pentex Alaska
Fairbanks, Alaska
POSITION STATEMENT: Answered questions during the presentation.

ACTION NARRATIVE

10:16:33 AM

CHAIR ADAM WOOL called the House Special Committee on Energy meeting to order at 10:16 a.m. Representatives Wool, Rauscher, Spohnholz, Claman, Johnston, and Johnson were present at the call to order.

Presentation: Interior Energy Project

10:17:15 AM

CHAIR WOOL announced that the only order of business would be a PowerPoint presentation on the Interior Energy Project.

10:17:55 AM

JOMO STEWART, General Manager, Interior Gas Utility, introduced a PowerPoint titled, "Interior Energy Project." [Included in members' packets] He walked through slide 4, "Interior Energy Project PURPOSE AND GOALS," and explained that this was a community-initiated project with a goal "to bring low-cost energy to as many residents and businesses of Interior Alaska as possible, as quickly as possible ..." He relayed that this project had been conceived during a time when oil prices had escalated, which brought the need to stabilize the economy, help improve air quality, and offer an alternative energy source that was cleaner burning than wood stoves.

10:20:50 AM

CHAIR WOOL asked if there had been any air quality studies done prior to this.

GENE THERRIAULT, Alaska Industrial Development and Export Authority, offered his belief that because of the seasonal air inversion, the Fairbanks North Star Borough had always had "a bit of an air quality issue. However, over time the limits that were allowed under the Clean Air Act became more restrictive as scientific information about the impacts or the harm from particulate matter." He added that a shift to wood stoves exacerbated that problem.

MR. STEWART said that this was the local impetus for the Interior Energy Project, although there was also a statewide

component. He moved on to slide 5, "Interior Energy Project PURPOSE AND GOALS, Statewide," and explained that the fiscal position of the state was changing and that the allocation of large grants to fund major development projects was coming to an end. Consequently, there was work for a funding strategy that was more sustainable moving into the future. He stated that the committee had requested a blended finance package, modeled after the "Bradley Lake" model, which blended a small grant component with bonds and loans with favorable terms. He allowed that this could conceivably be more sustainable and within the means of the state.

MR. STEWART directed attention to slide 6, "IEP - Original Project Definition." He explained that this entailed an increase of the LNG [liquid natural gas] production, storage, and delivery capacity. He added that it was also necessary to increase delivery and support conversion for natural gas.

MR. STEWART addressed slides 7 - 11, "Project History." He reported that this project had been under discussion for more than 10 years and had started in Fairbanks with the Fairbanks Economic Development Corporation Cost-of-Energy task force. He relayed that this was a broad cross section of the community, more than 100 people, and included representatives from government, the university, the utility sector, and private citizens trying to find ways to address the challenge for the cost of energy. He added that most of the recommendations were adopted and included energy efficiency programs such as the home energy retro fit program, the renewable energy grant program, and a bio mass to liquids project. He explained that the community then approached the legislature and requested a grant to advance a natural gas project. He pointed out that, although the community did run primarily on oil, Fairbanks was in a position to utilize gas from the North Slope. This project, funded by a state grant in 2011, was called the Gas Distribution System Analysis and included engineering, financial modeling, and environmental study. He explained that they worked through this process in 2012 and attempted to create a municipal utility to serve the entirety of the Fairbanks North Star Borough. He relayed that the cities could cede the utility power to the borough to help create an area wide utility. He noted that, as the cost for the distribution infrastructure was estimated to be more than $500 million, it was necessary to find a funding package, and this was when the blended finance package was proposed to the administration. It was necessary to keep moving forward by establishing the municipal utility, creating the service area with the RCA [Regulatory Commission of Alaska], and

setting up the administration. In 2013, the project was titled the Interior Energy Project and the funding package was proposed and approved for a $57.5 million grant, a $125 million SETS [Sustainable Energy Transmission and Supply] loan with very flexible lending terms, and $150 million of bonding authority. This project had a mandate for a North Slope focus. In 2014, the private sector took a SETS loan to build infrastructure and an RFP process was initiated, a partner was selected, and development work commenced on the North Slope configuration. He reported that customer conversion studies were conducted to determine the receptiveness for natural gas.

10:30:58 AM

REPRESENTATIVE JOHNSTON asked if natural gas expansion was supported by these funds or by private funds.

MR. STEWART replied that it had been done with Interior Energy Project funding.

CHAIR WOOL asked about the price for delivered gas.

MR. STEWART said that the cost of the raw commodity from the North Slope was about $3.00 per mcf [million cubic feet], which was about half the price of gas from the Cook Inlet. He noted that the cost for the infrastructure was about double that of the Cook Inlet. He reported that initial cost estimates for the LNG facility infrastructure of about $170 - $190 million had risen to almost $250 million, while the estimated cost for delivered LNG had climbed to more than $18 and was still increasing. He said that, in 2015, the infrastructure price had remained very high, which left little money to add delivery infrastructure within Fairbanks. The project then requested the latitude to review other areas to develop and site the project, which included Cook Inlet. He reported that House Bill 105 had approved this in 2015, and that core Fairbanks was now almost entirely plumbed and ready for LNG. He added that the Interior Gas Utility had its first build-out phase in the core North Pole area, laying 70 miles of pipe in 100 days.

REPRESENTATIVE JOHNSTON asked if the construction was loan based.

MR. STEWART said that the taxes would come later for the repayment of the SETS loan.

MR. STEWART returned attention to slide 9 and reported that the legislature had allowed for the project to do a review of energy proposals in 2015. Instead of building an LNG facility on the North Slope, it was decided to base the project in Cook Inlet in the Matanuska-Susitna Valley on the way to Point Mackenzie. He reminded the committee that, in 2015, as the oil price dropped precipitously, a new conversion analysis and market sensitivity analysis was conducted because a project goal was to halve the cost of energy. This new analysis found that there was still support for a 50 percent conversion rate, noting that support for the investment to convert was dependent on the economic driver. He pointed out that analysis reported that the conversion rate for commercial businesses was 100 percent.

10:37:53 AM

MR. STEWART returned attention to slide 10 and reported that Salix had been chosen as the partner for the Cook Inlet area project. He explained that, as the cost structure and the cost components were driving up the cost of the gas, it was then decided to move forward with the project without Salix. He reported that, in 2016, negotiations began for the state to purchase Pentex through Alaska Industrial Development and Export Authority (AIDEA), with a hope to assist the community with its possible purchase of the operation. In December, this culminated with a Memorandum of Understanding for further negotiations toward the purchase.

MR. STEWART turned attention to slide 11 and reported on the activity in 2017, which began with negotiations to transform the Memorandum of Understanding into contractual agreements to move forward. He noted that the legislative agreement for the project to look for other sources of gas had also included some restrictions on AIDEA regarding funding. He reported that grant funds had been expended in pursuit of the North Slope configuration, although these funds would not be used for the Cook Inlet project. He added that in 2017 there was a continuance of conversion analyses, and pursuit of alternatives for sources of gas, project components and configurations, and resources.

10:41:43 AM

CHAIR WOOL asked about the investments of money on the North Slope.

MR. THERRIAULT explained that, although $12 million had been spent, part of this was an asset, the building of a pad for a plant to be sited, and this asset remained an asset of the enterprise. He reported that additional money was spent on engineering and that even if the plant was not built on the North Slope, there was the knowledge of the plans, designs, and technology which could be used elsewhere. He explained that the legislature had determined in House Bill 105 that it was necessary for specific components to be included in a plan prior to spending large amounts of money, and that AIDEA was in charge of this plan.

CHAIR WOOL asked about the current status of the North Slope assets.

MR. STEWART responded that these assets were AIDEA controlled, although they were part of the package in the transfer of the ownership of Pentex. He pointed out that the building pad was well sited for the proximity of the infrastructure for natural gas on the North Slope. He said that the project had filed with the RCA and with the Department of Natural Resources for change of control for that pad, and that AIDEA was in negotiations with a development partner for use of the pad, which would defray some of its costs for the lease.

CHAIR WOOL asked why they were trying to keep the pad.

MR. STEWART replied that they were keeping the lease active for the pad, and that AIDEA was in negotiations for a sublease which would generate revenues.

REPRESENTATIVE JOHNSON asked about the current price for North Slope gas.

MR. STEWART stated that currently the gas was coming from Cook Inlet.

REPRESENTATIVE JOHNSON asked about the earlier negotiated prices.

MR. STEWART said that contracts had been negotiated by others with North Slope sellers, which were in the $2.50 - $3.50 range.

REPRESENTATIVE JOHNSON asked how this would tie in with the AGDC [Alaska Gasline Development Corporation] and the outtakes for the line.

MR. STEWART explained that the AGDC project was a large diameter gas line from the North Slope to an LNG facility in the Cook Inlet region for export. He acknowledged that the AGDC project could have a lateral line into Fairbanks. He stated that the Interior Energy Project would spur the development of infrastructure which would allow the community to more immediately tie into and utilize the larger AGDC infrastructure once it was in place.

REPRESENTATIVE JOHNSON mused that the outtakes of the larger line could connect to the Interior Energy Project.

10:46:30 AM

MR. STEWART turned attention to slide 13, "HB 105 Plan & Resolution" and reported that the legislature had "posed some more robust reporting requirements," listing these to include quarterly reports to the legislature. He added that the project plan should include the source of natural gas, the estimated total project cost, and the estimated "pre-distribution" cost of the supplied gas.

MR. STEWART moved on to slide 14, "HB 105 Resolution - Gas Supply." He pointed out that during the Memorandum of Understanding process, a lot of effort went into defining the scope of the project for what was being developed and the estimated costing for that development, so that requirement of House Bill 105 had already been put in place. He acknowledged that it was still not clear from where the gas would come or how much it would cost, in order to determine a delivered price of gas at meter. He said that negotiations in 2017 between Pentex and a Cook Inlet seller were on-going and finally came to fruition with a three-year contract with Hilcorp [Alaska, LLC] for natural gas. He reported that the price was $7.72 per mcf, that there was not a price escalator, and the price would remain the same on a seasonal basis. He said that it included enough gas for the existing 1100 customers and allowed capacity for expansion.

MR. STEWART directed attention to slide 15, "HB 105 Resolution" and reiterated that the questions had been answered for the source of gas in Cook Inlet, the estimated total project cost was $346 million, and the estimated "pre-distribution" cost of supplied gas of $14.19 after completion of the LNG facility and the storage.

10:49:51 AM

REPRESENTATIVE SPOHNHOLZ asked about the funding difference between the principal financing supplied by AIDEA of $275 million and the estimated total cost of $346 million.

MR. THERRIAULT explained that a portion of the original package had included grant funds of general fund dollars for the project, as well as the SETS loans, and the ability to bond for additional funds. He stated that once the utility was combined and operating, it would have the ability to borrow its own money.

REPRESENTATIVE SPOHNHOLZ mused that some of the funding was carry over from earlier allocated funding.

MR. THERRIAULT said that the entire package was a blend of capital dollars, loan dollars, and the ability to access the bond market.

REPRESENTATIVE CLAMAN asked how this estimated average price to the customer of $17.31 compared to the average price to the customer in Anchorage.

MR. THERRIAULT said that he was unsure of the current price.

REPRESENTATIVE CLAMAN asked for prices in both Anchorage and the Matanuska-Susitna.

MR. STEWART directed attention to the memo in the House Bill 105 support package [Included in members' packets].

CHAIR WOOL said that the underlying conflict was that, as the price of oil comes down and the cost to the consumer in Fairbanks of natural gas was going up, there was not any savings, and possibly a loss.

MR. STEWART, in response, explained that his presentation was based on the 2018 - 2019 time frame, which was just prior to full development and full utilization. He directed attention to the memo about House Bill 105, which detailed the estimated reductions when the infrastructure was in place.

MR. THERRIAULT directed attention to page 5 of the memo about House Bill 105. He explained that, as the initial price for gas in 2018 and 2019 was the existing price, it was currently necessary to spread the fixed costs over a smaller customer base. He reported that an increase to the size of storage would

allow the existing plant to run "full tilt and produce more LNG because we've got a storage container to put it in." He added that they would then be able to serve more residential customers, and then, in 2020, as the fixed costs were spread, the delivered price was predicted to come down to $17.31. He pointed out that the price was projected to continue to come down over the following years, as customers were incentivized and the increased efficiency of gas was touted.

CHAIR WOOL asked if the 50 percent conversion included everyone in the community.

MR. THERRIAULT explained that this percentage was for the people who had access to conversion.

10:56:32 AM

MR. STEWART introduced slide 17, "Purchase & Sale and Financing Agreements," which detailed the utility integration agreements for the purchase of Pentex and the Interior Energy Project (IEP) Financing. He then moved on to slides 19 - 22, "Definitions," which listed IGU, Interior Gas Utility; AIDEA, Alaska Industrial Development and Export Authority; Pentex Alaska, LLC; and IEP, Interior Energy Project. He explained that the reference to Titan was for the liquefaction facility, near Point MacKenzie. He noted that the current plant was Titan 1, with Titan 2 becoming the expansion, and Titan 3 being another further expansion. He went on to explain that the phases all moved in tandem, as the demand increased, there was a need for more LNG, hence the need for more liquefaction capacity. He explained the phases of the distribution system by IGU: Phase 1 was accomplished in 2015 with installation in core North Pole; Phase 2 and Phase 3 would be built out at a later date. He moved on to discuss the storage facilities at Fairbanks Natural Gas for 350,000 gallons which allowed service to about 1,000 customers and reported on the plan to install a 5.25-million-gallon storage facility which would allow for service to "thousands upon thousands of customers" with the RCA requirement to maintain a five-day supply of natural gas.

REPRESENTATIVE JOHNSTON asked for the cost to building out the network. She referenced the build out districts in Southcentral Alaska which were financed by the residents over a 10-year period and asked if the costs were comparable.

11:01:20 AM

DAN BRITTON, Pentex Alaska, in response, said that the distribution system would cost [indisc].

CHAIR WOOL recapped that the costs were comparable at $225,000 - 250,000 per mile.

MR. STEWART acknowledged that the cost for build out of distribution for the Interior Gas Utility was a bit more than for Fairbanks Natural Gas, stating that the wages were paid at a higher rate. In response to Representative Johnston, he said that they had a similar build out system for the road service areas.

REPRESENTATIVE RAUSCHER asked for a better definition to payment of a little bit more.

MR. STEWART explained that the IGU build out was more in the $275,000 - $300,000 range per mile. He added that the current build out had been very rapid and robust for one summer.

REPRESENTATIVE CLAMAN asked how the cost per mile would be financed.

MR. STEWART, in response, directed attention to slide 28, "Project Financing - Funds & Sources." He reported that these were financed with SETS loans, although the exact terms were slightly different, about 1 percent loans with a maturity date in December 2017. He stated that the loans had been granted with the recognition that IGU was moving forward with a utility integration and that the loans would be subsumed by another loan. He said there was "a bit of a grace period for repayment." He returned attention to slides 24 - 26, "Utility Integration Agreements." He outlined that the agreement and the SCOPE of work, as currently defined by the purchase and sale and financing agreements, was for successive LNG development to increase natural gas capacity and storage capacity in Fairbanks and North Pole, to increase the build-out for Phases 1 - 3, to expand the Fairbanks Natural Gas service area, and to increase the customer conversion program. He pointed out that slide 25 presented a more detailed breakdown of the capital requirements and the estimated pricing. He shared slide 26, visual depictions of an LNG facility, a heat map, and greater development within the community.

REPRESENTATIVE JOHNSTON asked about refinancing for the SETS funds.

MR. STEWART, in response, stated that SETS was Sustainable Energy Transmission.

MR. THERRIAULT explained that this wording was established by the legislature in 2012, and this was a funding source for AIDEA loans for energy transmission and distribution assistance.

11:07:28 AM

MR. STEWART moved back to slide 28, "Project Financing - Funds & Sources," which listed the major funding components as appropriated by the legislature. He addressed slide 29, "Utility Integration Agreements," and spoke about the key business and financial terms, which included a commitment of up to $330 million of total development investment, structure of the SETS loans for $125 million, and the standards and process for issuance of $150 million in AIDEA bonds. He addressed the purchase of Pentex, and the process and timing for infrastructure development and system integration. Moving on to slide 30, "IEP SETS Financing," he explained that this was a loan for $125 million with a 50-year payback, and an interest rate of zero percent for the first 15 years, and then a rate of 0.25 percent interest for the remaining time. He added that there was a grace period dependent on demand growth, as it was still unclear for how the market would react.

MR. STEWART directed attention to slide 31, "IEP Bond Financing," and explained that the authorizing statute, when the legislature originally appropriated the funds, said that AIDEA could waive any and all regulations that normally applied to lending, as well as accommodation for certain statutes. He spoke about various other revolving loan programs he had witnessed, noting that the state did not want to compete with private sector banks. He stated that with this loan, there was a maximum interest of 3 percent, as there was the potential for very large commercial investments. He allowed that this may have required "a high degree of flexibility to make it work." The desired result was for a maximum of benefit for the citizenry.

REPRESENTATIVE SPOHNHOLZ referenced slide 30 and asked about the a) and b) options.

MR. STEWART explained that, although there was a 50-year deferral and a 35-year payback, within the loan document there was a "demand-based deferral," which would allow, if the demand was not as estimated, that the utility make interest only

payments for five years and re-amortize the remainder of the loan over a shortened time period. He declared that this acted as a five-year cushion to allow the demand to accrue, if necessary.

MR. STEWART returned attention to slide 31 and stated that this was a standard bond package for a 30-year payback and a 4 percent interest rate with the standard debt service coverage ratios. He moved forward to slide 33, "IEP Financial Model," and stated that a robust financial and economic model was produced for this project. He added that this model was updated regularly with the latest information, which included: cost of feed-gas, cost of construction and operations, and estimated customer conversion rates. He addressed the AIDEA purchase of Pentex, pointing out that the project and its funding package had to accommodate the purchase payback with interest. He described the three modelling scenarios: the base case, the low-gas case, and the no growth case.

11:16:12 AM

MR. STEWART introduced slide 34, "Modeled SETS Financing Terms" and slide 35, "Modeled Bond Financing Terms," which listed the standard bonding assumptions for a 30-year term: 4 percent interest rate, a 3-year deferral on the front end, and capitalized on the back end with standard debt service coverage ratios. Pointing to slide 36, "Modeled Cost and Rate Scenarios," he listed the assumptions to include the price of the feed gas, the infrastructure, the build out, and the customer conversions under each of the modelling scenarios.

CHAIR WOOL mused about the no-growth scenario.

MR. STEWART replied that this was not a realistic scenario, and was not meant to be a realistic scenario, but was, instead, a worst case scenario. He pointed out that the commercial consumers had a different "calculus" than the residential consumers, as there were still commercial consumers signing up during a time of price parity for oil and gas. He declared that there were reasons not connected directly to price, which included conversion for efficient appliances or elimination of environmental hazards.

MR. STEWART presented slide 37, "Modeled Capital Program - Major Items," and slide 38, "Cardno Studies:" which depicted the utilization of the cardno data and the estimated reaction to

natural gas. He explained that the delta between oil and gas was compared and then used to plot market reactions.

MR. STEWART discussed slide 40, "Financial Modeling - Results," and explained that under the "No Growth" scenario the utility would be "in a very challenged position" even as it would be able to continue to operate and provide service for at least 20 years because of the structure of the financial package. He discussed the "Base Case" scenario of a 35 percent conversion rate, and stated that the utility would be healthy, although it would not be able to meet its rapidness of development targets. He moved on to the "Lower-Cost-Gas" scenario and stated that he utility could substantially meet its price targets and its development goals. He reported that, based on these models, the board chose to enter into an agreement with AIDEA for the purchase of Pentex.

11:23:13 AM

MR. STEWART stated that there had been a "robust" process to reach the decision, which included quarterly reporting, public comment periods, and public presentations, slide 41, "Utility Integration Agreements - Public Process and Decisions." He reported that the IBU board meeting approval was granted at the Fairbanks North Star Borough Assembly Chambers on December 5, 2017 and the AIDEA board approval was granted at the Anchorage offices on December 7, 2017.

REPRESENTATIVE RAUSCHER asked if the Matanuska-Susitna process for a local improvement district was similar to the process in Fairbanks.

REPRESENTATIVE JOHNSTON explained that the Matanuska-Susitna process was for a service district.

MR. THERRIAULT explained that although it was available, they were not counting on this; however, limitations were built into the agreement for the combined utilities ability to go to the bond market. He suggested that although this was a means for the development of a new area with a need for service which would have to contribute by voting on a local improvement district, it was not currently required.

11:27:04 AM

MR. STEWART continued with slide 43, "PSA/FA Advancement," and said that the applications for change of control had been filed,

the due diligence was being performed, and the other work needed to satisfy the conditions was also being carried out.

CHAIR WOOL asked about the change of control letter for the North Slope pad.

MR. THERRIAULT explained that AIDEA was the holder of the existing lease for the North Slope pad and it was necessary to request that the Department of Natural Resources work with IGU to determine that IGU was fit, willing, and able to take over the original lease. He added that there was work on approval for part of the pad to be used under a sub-lease. He declared that with approval both the original lease and the sub-lease would be transferred to IGU control.

CHAIR WOOL asked about a future sale of the pad to recoup the investment.

MR. THERRIAULT said that any positive cash or proceeds of sale would have to be used to achieve the original goal for getting gas to Fairbanks and North Pole.

MR. STEWART explained that once funds were released after certification of the House Bill 105 plan, the project would move forward on the infrastructure development, slides 44 - 45, "Large LNG Storage Tank Construction - Commenced." He reported that AIDEA approved deployment of grant funds to Pentex to begin FEED work on the storage and the competitive bid process had begun in August 2017. He reported that the construction had already commenced with a hope to meet the 2020 deadline for storage.

CHAIR WOOL asked where the storage credit came from.

MR. STEWART said that it came from the state. He reported that the contractor was Preload Cryogenics, and he shared that the subcontractors were both local and statewide.

MR. STEWART noted that the project was also moving forward on bond authority extension, slide 46, "Bonding Authority Extension: HB 216 & SB 125," as the original five-year authorization would terminate on June 30, 2018.

11:32:03 AM

MR. STEWART concluded with slide 48, "Next Steps: Immediate Term," and shared that the contracts addressed a closure date of

May 31, 2018. He noted that the natural gas conversion program had been moving forward throughout the entire process and there was also focus on a potential on-bill repayment program. He added that the utility integration plan was prepared, the procurement manual was being finalized, and additional policies were being prepared to ensure this was an investment grade utility that operated under prudent utility principles. He shared an update on the North Pole storage and engineering design, as well as the LNG facility design.

REPRESENTATIVE JOHNSTON asked if there had been integration of Eielson Air Force Base and defense spending into the ten-year fiscal plan.

MR. STEWART explained that there had been discussions with the military bases, including Fort Wainwright, about the possible conversion to gas, although it had not been factored into any of the plans. He said that inclusion could improve the economics. He stated that there had been a very conservative approach to the fiscal plan. He pointed out that, as the combined heat and power systems for the military base was fed by coal, it would have been overly optimistic to factor this in as coal was so cheap. He added that any utilization of gas would improve the economics for all the customers.

11:36:04 AM

CHAIR WOOL stated that the predictions for when and for how much were both off. He expressed his concern that the data might still be off and noted that the conversion rate was dependent on the prices of gas and oil. He asked what safeguards would ensure expansion and if there was confidence for the timeline and price.

MR. THERRIAULT expressed his agreement for the uncertainties to price and date. He stated that once the House Bill 105 plan was in place, that allowed the large storage and construction time period that had certainty for completion by the middle of 2019. He expressed uncertainty for the number of conversions at that time, although the storage had to be in operation to qualify for a potential grant by January 1, 2020. He stated that the certainty for the availability of gas was coming into clearer focus, even though the price was dependent on the volume and number of customers to drive down the per unit price. He pointed out that, even at today's price, there was some "pent up demand." He shared an anecdote about a commercial account. He offered his belief that, as the majority of the pipe was in the

business district, there would be an increase for service which would also bring down the per unit price. He stated that it was possible to get more production out of the existing LNG plant if they had more storage.

CHAIR WOOL opined that, as the current problem was storage, not production, once this was resolved more customers could be served with the resulting drop in price. He asked if there were any other incentive programs.

MR. STEWART directed attention to slide 25 and reported that there were some funding accommodations for a customer conversion program. He added that the Fairbanks North Star Borough had been soliciting funding.

CHAIR WOOL asked about the conversion cost for an individual.

MR. STEWART explained that a home within 100 feet of the service line had an external conversion cost of $50. He said that the internal conversion could be "a bit more substantial." He shared that there were conversion kits for most major brand furnaces younger than 10 years which made it much more affordable, about $2,000. He reported that, although the IGU community conversion steering committee had been put on hold in 2016, it was now being restarted. He suggested that an on-bill repayment program could be in place within two years.

CHAIR WOOL, reflecting on the high prices for conversion, opined that these conversions would be more likely with an on-bill repayment program. He asked if the availability of natural gas near Fairbanks would eliminate the need for storage and liquefaction.

11:48:20 AM

MR. STEWART explained that the program was moving forward in a way to avoid any stranded assets. He said that it would be possible to relocate the LNG facility to put more gas in storage as a hedge for any supply disruption. He pointed out that there would be many communities beyond the economic reach of a pipeline and that Fairbanks could become the hub.

CHAIR WOOL asked about inclusion of the military bases as customers and whether the infrastructure build out would need to be adjusted to accommodate such a large customer.

MR. THERRIAULT acknowledged that any large user would be an attractive customer, although he was not sure that trucking LNG could support such a large combined heat and power plant. He offered a synopsis for the needs of each base as a customer. He stated that the long-term vision for the interior energy project was for the infrastructure to be in place to meet the core demand in the Fairbanks North Star Borough, although ultimately that infrastructure would serve the energy needs beyond the borough.

11:53:51 AM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Energy meeting was adjourned at 11:53 a.m.