

**ALASKA STATE LEGISLATURE**  
**HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

February 26, 2018

3:18 p.m.

**MEMBERS PRESENT**

Representative Sam Kito, Chair  
Representative Adam Wool, Vice Chair  
Representative Andy Josephson  
Representative Louise Stutes  
Representative Chris Birch  
Representative Gary Knopp  
Representative Colleen Sullivan-Leonard

**MEMBERS ABSENT**

Representative Mike Chenault (alternate)  
Representative Bryce Edgmon (alternate)

**COMMITTEE CALENDAR**

HOUSE BILL NO. 340

"An Act repealing the Alaska BIDCO Assistance program and repealing requirements for an annual examination of a BIDCO by the Department of Commerce, Community, and Economic Development."

- MOVED HB 340 OUT OF COMMITTEE

HOUSE BILL NO. 342

"An Act amending and repealing registration filing provisions of the Uniform Land Sales Practices Act; relating to the jurisdiction of the office of administrative hearings; and providing for an effective date."

- MOVED HB 342 OUT OF COMMITTEE

HOUSE BILL NO. 343

"An Act relating to examination of premium finance companies."

- MOVED HB 343 OUT OF COMMITTEE

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 147

"An Act relating to the Board of Public Accountancy; relating to the licensure of public accountants; and relating to the practice of public accounting."

- HEARD & HELD

HOUSE BILL NO. 261

"An Act relating to the financing and issuance of bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."

- HEARD & HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 340

SHORT TITLE: REPEAL BIDCO ASSISTANCE PROGRAM

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/09/18	(H)	READ THE FIRST TIME - REFERRALS
02/09/18	(H)	L&C
02/23/18	(H)	L&C AT 3:15 PM BARNES 124
02/23/18	(H)	Heard & Held
02/23/18	(H)	MINUTE (L&C)
02/26/18	(H)	L&C AT 3:15 PM BARNES 124

BILL: HB 342

SHORT TITLE: LAND SALES PRACTICES

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/09/18	(H)	READ THE FIRST TIME - REFERRALS
02/09/18	(H)	L&C
02/23/18	(H)	L&C AT 3:15 PM BARNES 124
02/23/18	(H)	Heard & Held
02/23/18	(H)	MINUTE (L&C)
02/26/18	(H)	L&C AT 3:15 PM BARNES 124

BILL: HB 343

SHORT TITLE: PREMIUM FINANCE COMPANIES : EXAM REQS

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/09/18	(H)	READ THE FIRST TIME - REFERRALS
02/09/18	(H)	L&C
02/23/18	(H)	L&C AT 3:15 PM BARNES 124
02/23/18	(H)	Heard & Held
02/23/18	(H)	MINUTE (L&C)
02/26/18	(H)	L&C AT 3:15 PM BARNES 124

BILL: HB 147

SHORT TITLE: PUBLIC ACCOUNTING

SPONSOR(S): THOMPSON

03/01/17	(H)	READ THE FIRST TIME - REFERRALS
03/01/17	(H)	L&C
02/02/18	(H)	SPONSOR SUBSTITUTE INTRODUCED
02/02/18	(H)	READ THE FIRST TIME - REFERRALS
02/02/18	(H)	L&C
02/26/18	(H)	L&C AT 3:15 PM BARNES 124

BILL: HB 261

SHORT TITLE: EXTEND BOND AUTH FOR INTERIOR ENERGY PROJ

SPONSOR(S): THOMPSON

01/08/18	(H)	PREFILE RELEASED 1/8/18
01/16/18	(H)	READ THE FIRST TIME - REFERRALS
01/16/18	(H)	L&C, FIN
02/26/18	(H)	L&C AT 3:15 PM BARNES 124

#### **WITNESS REGISTER**

MIKE NAVARRE, Commissioner Designee

Department of Commerce, Community & Economic Development (DCCED)  
Juneau, Alaska

**POSITION STATEMENT:** Introduced HB 340 on behalf of the House Rules Committee by request of the governor.

PATRICE WALSH, Chief Examiner

Division of Banking and Securities

Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions in the hearing on HB 340.

MIKE NAVARRE, Commissioner Designee

Department of Commerce, Community & Economic Development (DCCED)  
Juneau, Alaska

**POSITION STATEMENT:** Introduced HB 342 on behalf of the House Rules Committee by request of the governor.

MIKE NAVARRE, Commissioner Designee

Department of Commerce, Community & Economic Development (DCCED)  
Juneau, Alaska

**POSITION STATEMENT:** Introduced HB 343 on behalf of the House Rules Committee by request of the governor.

PATRICE WALSH, Chief Examiner  
Division of Banking and Securities  
Department of Commerce, Community & Economic Development (DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions in the hearing on HB 343.

REPRESENTATIVE STEVE THOMPSON  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HB 147 as prime sponsor.

KAREN BREWER-TARVER  
Certified Public Accountant  
Member, Alaska Board of Public Accountancy  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions in the hearing on HB 147.

JEFF JOHNSON  
Member, Alaska Board of Public Accountancy  
Fairbanks, Alaska

**POSITION STATEMENT:** Answered questions in the hearing on HB 147.

DONOVAN RULIEN  
Alaska State Board of Accountancy  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 147.

REPRESENTATIVE STEVE THOMPSON  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Introduced HB 261 as prime sponsor.

GENE THERRIAULT  
Alaska Industrial Development and Export Authority (AIDEA),  
Juneau, Alaska

**POSITION STATEMENT:** Testified in the hearing on HB 261.

JOMO STEWART, Managing Director  
Interior Gas Utility  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in the hearing on HB 261.

ELIZABETH WARLICK

Greater Fairbanks Chamber of Commerce  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 261.

JIM DODSON

Fairbanks Economic Development Corporation  
Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 261.

DAVID PRUHS

Fairbanks, Alaska

**POSITION STATEMENT:** Testified in support of HB 261.

### **ACTION NARRATIVE**

[3:17:52 PM](#)

**CHAIR SAM KITO** called the House Labor and Commerce Standing Committee meeting to order at 3:17 p.m. Representative Sullivan-Leonard, Wool, Stutes, Knopp, Birch, Josephson and Kito were present at the call.

### **HB 340-REPEAL BIDCO ASSISTANCE PROGRAM**

[3:18:56 PM](#)

CHAIR KITO announced that the first order of business would be HOUSE BILL NO. 340, "An Act repealing the Alaska BIDCO Assistance program and repealing requirements for an annual examination of a BIDCO by the Department of Commerce, Community, and Economic Development."

[3:19:20 PM](#)

MIKE NAVARRE, Commissioner Designee, Department of Commerce, Community & Economic Development (DCCED), introduced HB 340 on behalf of the House Rules Committee by request of the governor. He stated the proposed bill was an efficiency bill, repealing a number of statutes for a program that has never been funded. He said there is only one BIDCO in Alaska, and the proposed bill would bring the need for examinations from every 18 months to "as needed."

[3:20:04 PM](#)

REPRESENTATIVE SULLIVAN-LEONARD said she was confused regarding how the BIDCO process works. She said she initially thought the

proposed bill would be repealing the program altogether. She asked whether it was the assistance program that would be repealed.

COMMISSIONER DESIGNEE NAVARRE answered in the affirmative. He said BIDCOs would still exist, but the assistance program had never been funded.

REPRESENTATIVE SULLIVAN-LEONARD spoke to the loans for BIDCOs and some of the jobs data that the program created.

COMMISSIONER DESIGNEE NAVARRE asked to which documents Representative Sullivan-Leonard referred.

[3:22:03 PM](#)

PATRICE WALSH, Chief Examiner, Division of Banking and Securities, Department of Commerce, Community & Economic Development (DCCED), answered questions in the hearing on HB 340. She said she did not have the data Representative Sullivan-Leonard was looking at, so could not answer the question.

[3:22:51 PM](#)

REPRESENTATIVE SULLIVAN-LEONARD said she would follow up with Ms. Walsh at a later date.

COMMISSIONER DESIGNEE NAVARRE suggested the question was better directed at Alaska Growth Capital, which facilitates those loans.

[3:23:42 PM](#)

REPRESENTATIVE WOOL asked for clarification about the different uses of the term "BIDCO".

COMMISSIONER DESIGNEE NAVARRE answered the only BIDCO in Alaska is the Alaska Growth Capital.

REPRESENTATIVE WOOL asked whether repealing the BIDCO program was the goal of the proposed bill. He asked whether the corporation formed by the BIDCO program would stay intact, but the program would go away.

COMMISSIONER DESIGNEE NAVARRE said the regulatory board would remain, but the audit process would be carried out when problems were identified or when the entity is up for renewal.

[3:25:50 PM](#)

REPRESENTATIVE KNOPP said he understood the program isn't functioning. He asked about the intent of the BIDCOs.

COMMISSIONER DESIGNEE NAVARRE deferred to Ms. Walsh.

REPRESENTATIVE KNOPP asked whether the state still supports the one BIDCO in the state.

[3:27:18 PM](#)

CHAIR KITO explained that BIDCOs were a federal construct and Alaska adopted a state construct. He said he thought federal funding coming in can come in through the Small Business Administration and some entities are eligible to be conduits for the federal money coming in. He said the proposed bill would remove the state capitalization as well as the state regulatory requirement for an audit, which would relieve some of the burden on the BIDCO and on the department while allowing the BIDCO to benefit from federal programs.

REPRESENTATIVE KNOPP asked whether the program acts as conduit for federal money.

CHAIR KITO said he thought it was benefiting Alaska by providing loans from the SBA.

[3:28:47 PM](#)

MS. WALSH said that all that had been stated was correct.

[3:29:01 PM](#)

REPRESENTATIVE KNOPP asked whether the state would be retaining oversight authority.

COMMISSIONER DESIGNEE NAVARRE answered there are two parts [to the proposal]. He said the first part is licensing, which the department would continue to oversee, and the second part is funding of the BIDCO loan program which would be repealed. He explained BIDCOs are able to facilitate loans to Alaska businesses with federal dollars.

[3:30:27 PM](#)

REPRESENTATIVE KNOPP asked whether the state was still receiving federal funds for BIDCOs.

COMMISSIONER DESIGNEE NAVARRE answered that the one BIDCO can still access federal funds for loans.

[3:30:59 PM](#)

CHAIR KITO stated public testimony on HB 340 was still open [from the previous bill hearing]. Upon ascertaining that no one was available to testify, he closed public testimony.

[3:31:21 PM](#)

REPRESENTATIVE BIRCH reiterated that his son is employed at the one BIDCO in the state.

REPRESENTATIVE WOOL asked whether the one BIDCO that is funded is an investment company.

COMMISSIONER DESIGNEE NAVARRE answered in the affirmative. He added the company assists businesses to access loan programs.

REPRESENTATIVE WOOL moved to report HB 340 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, it was so ordered.

[3:32:35 PM](#)

The committee took an at-ease from 3:32 p.m. to 3:35 p.m.

### **HB 342-LAND SALES PRACTICES**

[3:35:08 PM](#)

CHAIR KITO announced that the next order of business would be HOUSE BILL NO. 342, "An Act amending and repealing registration filing provisions of the Uniform Land Sales Practices Act; relating to the jurisdiction of the office of administrative hearings; and providing for an effective date."

[3:36:14 PM](#)

MIKE NAVARRE, Commissioner Designee, Department of Commerce, Community & Economic Development (DCCED), introduced HB 342 on

behalf of the House Rules Committee by request of the governor. He said the [Uniform Land Sales Practices] Act was obsolete and unused and the proposed bill would clean up the statute by repealing it.

CHAIR KITO stated public testimony on HB 342 was still open [from the previous bill hearing]. Upon ascertaining that no one was available to testify, he closed public testimony.

[3:37:39 PM](#)

REPRESENTATIVE WOOL moved to report HB 342 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, it was so ordered.

[3:37:59 PM](#)

The committee took an at-ease from 3:37 p.m. to 3:40 p.m.

**HB 343-PREMIUM FINANCE COMPANIES : EXAM REQS**

[3:40:39 PM](#)

CHAIR KITO announced that the next order of business would be HOUSE BILL NO. 343, "An Act relating to examination of premium finance companies."

[3:40:48 PM](#)

MIKE NAVARRE, Commissioner Designee, Department of Commerce, Community & Economic Development (DCCED), introduced HB 343 on behalf of the House Rules Committee by request of the governor. He explained that HB 343 would exempt premium finance companies from the 18-month examination requirement.

[3:42:01 PM](#)

CHAIR KITO commented that he would cautiously support the proposed bill. He said he would encourage the department to ensure there would be at least some kind of verification that there are no issues going into the future.

[3:42:44 PM](#)

REPRESENTATIVE SULLIVAN-LEONARD asked why the proposal was to do away with an examination as opposed to changing it up to a two-year or three-year period.

COMMISSIONER DESIGNEE NAVARRE said that no issues had been identified and it was thought renewal examinations would be sufficient.

[3:44:28 PM](#)

PATRICE WALSH, Chief Examiner, Division of Banking and Securities, Department of Commerce, Community & Economic Development (DCCED), answered questions in the hearing on HB 343. She confirmed that there are two [review] opportunities with the licensed group. She stated the groups submit information for review on December 31 by way of renewal and March 15 when they submit an annual report. She reiterated the aim was to best use the division's resources.

[3:45:43 PM](#)

REPRESENTATIVE JOSEPHSON asked whether the recommendation came from the companies or from department staff.

COMMISSIONER DESIGNEE NAVARRE answered that he thought it came from staff as a way to better utilize their resources.

MS. WALSH confirmed it came from staff.

[3:46:26 PM](#)

CHAIR KITO closed public testimony on HB 343.

[3:46:36 PM](#)

REPRESENTATIVE WOOL moved to report HB 343 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, it was so ordered.

[3:46:49 PM](#)

The committee took an at-ease from 3:46 p.m. to 3:49 p.m.

[3:46:58 PM](#)

**HB 147-PUBLIC ACCOUNTING**

[3:49:38 PM](#)

CHAIR KITO announced that the next order of business would be HOUSE BILL NO. 147, "An Act relating to the Board of Public Accountancy; relating to the licensure of public accountants; and relating to the practice of public accounting."

[3:49:44 PM](#)

REPRESENTATIVE STEVE THOMPSON, Alaska State Legislature, presented HB 147 as prime sponsor. He paraphrased the sponsor statement [included in committee packet] which reads as follows [original punctuation provided]:

SSHB 147 is a bill that updates the statutes in Title 8 (Business and Professions), Chapter 4 (Accountants).

The National Association of State Boards of Accountancy (NASBA) and the American Institute of Certified Public Accountants (AICPA) provided the Alaska Board of Public Accountancy under the Department of Commerce, Community, and Economic Development with a summary of areas where the Alaska statutes and regulations for public accountancy differ from the Uniform Accountancy Act or AICPA's Code of Professional Conduct.

The proposed statute changes will align the Alaska statutes and regulations for public accountancy with these national organizations.

Many of the changes in the bill are housekeeping items. Some changes expand existing language to provide more information or clarity, while other changes remove unnecessary language or condense it.

REPRESENTATIVE THOMPSON mentioned that his wife is a certified public accountant (CPA) and chair of the Alaska CPA Legislative Committee. He underlined that neither he nor any member of the CPA community would benefit financially from the proposed bill.

[3:52:11 PM](#)

KAREN BREWER-TARVER, Certified Public Accountant, Member, Alaska Board of Public Accountancy, answered questions in the hearing on HB 147. She said the board had worked with the Alaska

Society of CPAs to make the changes. She added that none of the proposed changes are controversial

[3:53:11 PM](#)

REPRESENTATIVE SULLIVAN-LEONARD asked for more information regarding the removal of language from statute.

MS. BREWER-TARVER answered she thought Representative Sullivan-Leonard was referring to Section 3 of the proposed bill. She explained there are currently two ways to become licensed in the state as a CPA. She said a licensee could either pass an exam or present a license from another state. She added that currently in Alaska there is a requirement for four years of public accounting work. It was determined that this is more than what is asked for from those taking the CPA exam, and the change would reduce it to two years.

[3:54:54 PM](#)

REPRESENTATIVE JOSEPHSON asked Ms. Brewer-Tarver to explain what is going on with the test functions described in Section 5.

MS. BREWER-TARVER said Section 5 is the confidential communications section. She said Section 6 was being added to include wording in the Uniform Accountancy Act outlining which regulatory agencies to which to submit work papers.

[3:56:32 PM](#)

REPRESENTATIVE BIRCH asked whether a CPA designation is required for a large commercial enterprise for accounting procedures.

MS. BREWER-TARVER answered the only reason a CPA license is needed is for test functions.

[3:57:57 PM](#)

CHAIR KITO opened public testimony on HB 147.

JEFF JOHNSON, Member, Public Accountancy Board, stated that he is employed by RJG CPA in Fairbanks, Alaska. He said that the fiscal note reflects the savings on postage due to the use of email.

REPRESENTATIVE JOSEPHSON asked for the full title of the firm.

MR. JOHNSON answered that it was the initials of the names of the members of the firm.

[3:59:43 PM](#)

DONOVAN RULIEN, Alaska State Board of Accountancy, testified in support of HB 147. He explained the aim of the proposed bill is to clean up the language in the statute to bring it up to date.

[4:00:30 PM](#)

CHAIR KITO said he would be leaving public testimony open on HB 147.

CHAIR KITO held over HB 147.

**HB 261-EXTEND BOND AUTH FOR INTERIOR ENERGY PROJ**

[4:00:52 PM](#)

CHAIR KITO announced that the next order of business would be HOUSE BILL NO. 261, "An Act relating to the financing and issuance of bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."

[4:01:25 PM](#)

REPRESENTATIVE STEVE THOMPSON, Alaska State Legislature, introduced HB 261 as prime sponsor. He said HB 261 would extend the allowable time for the Alaska Industrial Development and Energy Authority (AIDEA) to issue bonds for the Interior Energy Project (IEP) to June 30, 2023. He added the Interior suffers the most volatile energy costs out of any town on the rail belt. He said when the price of heating oil is high, many residents augment their fuel with wood, but due to the climate and geography of the area, woodburning at low temperatures contributes to problematic air quality issues for the Interior. He went on to say that Fairbanks, Alaska, and North Pole, Alaska, are part of the PM125 non-attainment area which leads to restrictions on wood sellers and non-compliant wood stoves. He spoke to Senate Bill 23 in 2013, creating the IEP to bring affordable gas to people in the Interior. He stated the goal of the IEP is to bring natural gas to the Interior at the lowest cost and as quickly as possible. He said the initiative includes the liquefaction, regasification, storage and distribution of natural gas. He explained due to limited

liquification and storage infrastructure, the distribution network never exceeded 70 miles of pipeline. He added that many of the customers are commercial in nature. This structure made it challenging to create an expanded network for residents. He underlined that for a community that supports two major military installations and many large commercial entities, the volatility of energy prices has presented a significant economic impediment.

REPRESENTATIVE THOMPSON said the original funding package for the IEP included \$57.5 million in a capital grant which has been spent or obligated; \$125 million in SETS loans of which \$52.8 million has been expended and \$45.5 million has been obligated; \$150 million in AIDEA bonding authority - the subject of the proposed bill - none of which has been used to date. He underlined the authorization is set to expire on June 30 [2018]. He emphasized that the bonding authority can only be used for the IEP due to amendments to the financing package created in the passage of House Bill 105. It can be used to finance investment-grade utility infrastructure due to covenants included in the agreements between AIDEA and IGU.

REPRESENTATIVE THOMPSON stated the project has not been without bumps in the road as is to be expected with any project of this scale. He listed the accomplishments of the project. In 2014-2015 the project created build-out covering nearly all of Fairbanks; adopted a qualified plan of development; and a gas supply agreement with Hilcorp and an agreement to consolidate FNG and IGU into a single gas utility through the sale of Pentex's assets to IGU. He said in the current month construction was under way to build the 5.2-million-gallon storage facility that will support customer growth in the new consolidated system. He said the first transmission is expected in the late fall or winter 2019. He stated that extending the sunset for AIDEA bonding will help the community realize the vision of clean and affordable natural gas in the Fairbanks, Alaska, area.

[4:08:55 PM](#)

REPRESENTATIVE JOSEPHSON asked Representative Thompson to repeat the three parts that made up Senate Bill 23.

REPRESENTATIVE THOMPSON answered there were \$57.5 million in capital grants; \$125 million in sustainable energy transmission supply (SETS) loans, of which \$52.8 million has been expended and \$45.5 million has been obligated.

REPRESENTATIVE JOSEPHSON asked whether there was work done but still no gas.

REPRESENTATIVE THOMPSON answered in the affirmative. He said Fairbanks, Alaska only has a small amount of storage and that a lot of the customers are commercial.

REPRESENTATIVE JOSEPHSON asked about the status of the transportation of the gas.

REPRESENTATIVE THOMPSON answered that originally there was a plan to bring gas from the North Slope and now the aim was to truck gas from Port Mackenzie. He added the rail system has not been solidified as an alternative.

[4:11:24 PM](#)

REPRESENTATIVE STUTES asked about the "bumps in the road."

REPRESENTATIVE THOMPSON answered there had been a purchase of land on the North Slope as well as the examination of the possibility of using the railroad.

CHAIR KITO asked about the impact of the price of natural gas on the project.

REPRESENTATIVE THOMPSON answered that when the project began, the cost of heating fuel was over \$30 per BTU. He said he thought the breakeven point at the time was about \$2 per gallon to match the cost of fuel oil.

CHAIR KITO said it seemed the changes in oil prices are more impactful than the price of gas.

[4:13:32 PM](#)

GENE THERRIAULT, Alaska Industrial Development and Export Authority (AIDEA), Juneau, Alaska, testified in the hearing on HB 261. He explained that when the IEP was first envisioned, the target was to deliver gas to residential customers at the fuel oil equivalent cost of \$2. He added the components are the source of the gas, liquefaction, transportation, storage as a cryogenic fluid, and distribution to customers. He said the choke point is the lack of liquified natural gas (LNG) storage in the community.

MR. THERRIAULT said in midsummer when demand falls off, there is nowhere to store the LNG. He said once the large storage tank is in place, more customers can be served. He said the rail transportation has been examined and larger storage containers have been acquired. He remarked access to the bonding will be critical when storage is brought online, and more customers will be served out of the storage.

[4:18:05 PM](#)

REPRESENTATIVE JOSEPHSON asked about the current capacity in Southcentral Alaska to liquify natural gas.

MR. THERRIAULT answered that there is a plant in the Mat-Su area with approximately one BSF per year and has been in operation for almost 20 years.

REPRESENTATIVE JOSEPHSON surmised SETS money was not needed for the plant.

MR. THERRIAULT answered it was previously a private sector partner and subsequently AIDEA purchased the Pentax assets in 2015.

REPRESENTATIVE JOSEPHSON asked whether there were major changes in SB 125 compared to HB 261.

MR. THERRIAULT answered that the two bills are identical.

[4:19:37 PM](#)

REPRESENTATIVE BIRCH asked what the price would be per British Thermal Unit (BTU).

MR. THERRIAULT answered the price was \$21.81 equivalent to \$2.77 fuel oil. He added that currently natural gas is below fuel oil.

REPRESENTATIVE BIRCH asked if the price is per million BTUs.

MR. THERRIAULT answered it is per thousand cubic feet (MCF).

REPRESENTATIVE BIRCH asked about the break out of the price.

MR. THERRIAULT spoke to House Bill 105, passed in 2015, in which restrictions were removed when the economics of sourcing gas on the North Slope didn't work. He said the source of gas from

Hilcorp was higher than expected at \$7.72. He stated that starting in 2020 or 2019 when storage will be available, it appears that trucking price is \$2.53. He said the calculation had not counted on the railroad. He added that once they are able to hook up more customers and spread the fixed costs, the price is expected to come down in the third year when residential customers come onboard at \$15.48 or \$15.11 and therefore close to the \$2 fuel oil equivalent.

[4:24:15 PM](#)

REPRESENTATIVE KNOPP asked about using the railroad.

MR. THERRIAULT answered the Alaska Railroad trial runs were the first shipments via rail of LNG in North America. He said the containers were shipped over from Japan. He explained the logistics of rail were complex since the site is not near the railroad and the crews did not have time in the day to complete the operation. The suggestion was to send railcars to Anchorage, Alaska, and ship the following day.

[4:26:23 PM](#)

REPRESENTATIVE JOSEPHSON asked about the plan to ship LNG to the North Star Borough.

MR. THERRIAULT described the service territory. He said AIDEA took the step to purchase the territory in order to expand the utility. He said the utility could be consolidated to push the gas out over a wide service area. He said that in 2015 some SETS money was used to add pipe to North Pole. He explained the plan was to use the existing tanks to push distribution to a larger area.

[4:28:49 PM](#)

REPRESENTATIVE WOOL asked how much of the bond authority has been used.

MR. THERRIAULT answered that none of it has been bonded but the expectation is that storage and plant size will use up the SETS funds.

REPRESENTATIVE WOOL asked whether the money would be used to purchase Pentex from AIDEA in the future.

MR. THERRIAULT answered that "it is part of the deal." He explained the Pentex purchase by AIDEA was done with the revolving load fun.

[4:30:23 PM](#)

CHAIR KITO asked whether the state would be repaid for the grants.

MR. THERRIAULT answered the state will not be paid back on the grant dollars. He said the SETS funds have a low interest rate and the bonds will be issued and the new municipal utility will be the enterprise that pays the bonds back. He said the state will not incur any of the debt.

CHAIR KITO asked whether the companies need to come back to the state for more funding.

MR. THERRIAULT said there was no plan to ask for more funds.

CHAIR KITO remarked that AIDEA has anticipated in its business plan a certain level of gas prices. He shared his concern that if flat or lower gas prices are anticipated, high oil prices will drive people towards gas, but historically high oil prices means high gas prices. He asked how that factors into the calculation on the economic viability of the project.

MR. THERRIAULT responded that as the price of oil went down, the project was challenged. Over a series of years, about 75 percent of people that have access to the pipe would become customers. As the price of oil came down, that was lowered to 50 percent of people converting over time. The IGU ran numbers based on 35 percent. It was thought that even at that very low price, the project would be able to pay its bills. He said the price of oil and fuel has come back up to above the price of gas. He added the AIDEA board announced a 3 percent increase in customers.

CHAIR KITO remarked that historically gas prices increase with oil prices. He suggested that gas price prediction is risky.

MR. THERRIAULT said the price from Hilcorp is locked in flat for 3 years. He said beyond that it is escalated by 2 percent per year.

[4:37:51 PM](#)

REPRESENTATIVE JOSEPHSON asked whether people can be compelled to make the transfer by federal ruling.

MR. THERRIAULT answered the local government has air quality rules. Fairbanks North Star Borough is working with the Department of Environmental Conservation (DEC). He added there is pressure from the Environment Protection Agency (EPA) and eventually the local government may have to implement those tools. He said they had not chosen to do so, but ultimately the Clean Air Act will add pressure.

[4:39:29 PM](#)

REPRESENTATIVE WOOL asked whether currently gas is being delivered to Fairbanks through FNG at approximately \$20.

MR. THERRIAULT confirmed that current price is \$20.81.

REPRESENTATIVE WOOL asked about the Pentex plant capacity.

MR. THERRIAULT answered capacity is about a billion cubic feet (BCF) per year.

REPRESENTATIVE WOOL suggested it is basically producing a million MCF per year and that would have to increase.

MR. THERRIAULT said that once the storage was in place, the next issue would be increasing capacity.

[4:41:25 PM](#)

JOMO STEWART, Managing Director, Interior Gas Utility, testified in the hearing on HB 261. He made a correction on whether the project will come back for more funding. He stated IGU would be coming back for funds for storage facilities that would be in place by 2019.

CHAIR KITO asked whether there is an estimate of how much additional capital IGU will be asking for from the legislature.

MR. STEWART answered the amount was written in statute as a reimbursement of maximum \$15 million. He said the large facility would qualify for the full reimbursement. He added a small satellite LNG facility in North Pole would cost in the \$5 million to \$7 million-dollar range.

CHAIR KITO asked for confirmation that the amount is identified in statute but not appropriated and would be a capital request.

MR. STEWART answered in the affirmative.

[4:44:54 PM](#)

REPRESENTATIVE WOOL asked for confirmation that the current storage facility that FNG is using will stay in operation in conjunction with the new facility on South Cushman.

MR. STEWART answered that a large storage tank will go in and the two larger ones will be moved out to North Pole.

[4:46:17 PM](#)

CHAIR KITO opened public testimony on HB 261.

[4:46:25 PM](#)

ELIZABETH WARLICK, Greater Fairbanks Chamber of Commerce, testified in support of HB 261. She said the Chamber supports the new storage facility and the expansion in North Pole.

[4:48:15 PM](#)

JIM DODSON, Fairbanks Economic Development Corporation, testified in support of HB 261. He stated the need to bring affordable clean energy to the Interior.

[4:49:15 PM](#)

DAVID PRUHS testified in support of HB 261. He stated the city of Fairbanks, Alaska has approximately 9,000 structures that rely on oil. He said the structural life of a buried fuel tank is 40 to 50 years. He estimated 50-60 percent of Fairbanks, Alaska, properties have fuel tanks passed their structural life. He added that real estate operators are ordering the structural integrity tests. He said Fairbanks, Alaska, also has a water table that is 12 feet below grade. He stated a new system is being put in to place to ensure new systems are convertible to natural gas. He said the city already has the system in place economically and needs to get there structurally.

[4:52:18 PM](#)

REPRESENTATIVE WOOL asked for clarification about the fuel bill to which Mr. Pruhs referred.

MR. PRUHS answered he was referring to his diesel bill which is \$2.94. He stated he had a gas line close to his house with no gas in it. He reiterated the need for the proposed legislation.

[4:53:09 PM](#)

CHAIR KITO announced he would leave public testimony open on HB 261.

[HB 261 was held over.]

[4:53:48 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:53 p.m.