

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

January 25, 2018

3:33 p.m.

MEMBERS PRESENT

Senator Click Bishop, Chair
Senator Anna MacKinnon
Senator Berta Gardner

MEMBERS ABSENT

Senator Lyman Hoffman
Senator Bert Stedman

COMMITTEE CALENDAR

SENATE BILL NO. 125

"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: SB 125

SHORT TITLE: EXTEND BOND AUTH FOR INTERIOR ENERGY PROJ

SPONSOR(S): SENATOR(S) KELLY

01/16/18	(S)	PREFILE RELEASED 1/8/18
01/16/18	(S)	READ THE FIRST TIME - REFERRALS
01/16/18	(S)	CRA, FIN
01/25/18	(S)	CRA AT 3:30 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

SENATOR KELLY
Senate District A
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Sponsor of SB 125.

JOE BYRNES, staff to Senator Kelly

Alaska State Legislature
Juneau, Alaska
Juneau, Alaska

POSITION STATEMENT: Answered questions on SB 125.

GENE THERRIAULT

AIDEA

Fairbanks, Alaska

POSITION STATEMENT: Supported SB 125.

JIM DODSON, President

Fairbanks Economic Development Corporation (FEDC)

Fairbanks, Alaska

POSITION STATEMENT: Supported SB 125.

JOMO STEWART, General Manager

Interior Gas Utility (IGU)

Fairbanks, Alaska

POSITION STATEMENT: Supported SB 125.

ACTION NARRATIVE

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CHAIR CLICK BISHOP called the Senate Community and Regional Affairs Standing Committee meeting to order at 3:33 p.m. Present at the call to order were Senators Gardner, MacKinnon, and Chair Bishop. Senators Stedman and Hoffman were excused.

SB 125-EXTEND BOND AUTH FOR INTERIOR ENERGY PROJ

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CHAIR BISHOP announced SB 125 was the only order of business today, [SB 125, version 30-LS1004\A was before the committee].

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SENATOR KELLY, sponsor of SB 125, Senate District A, Alaska State Legislature said this measure would extend the allowable time for the Alaska Industrial Development and Export Authority (AIDEA) organization to issue bonds for the Interior Energy Project (IEP) by five years to June 30, 2023. This is just an extension of a sunset date.

He explained that the Interior suffers from the most volatile costs of energy of any community on the Railbelt. Most Interior residents rely on heating oil for their homes and businesses, which is subject to dramatic fluctuations. Furthermore, when the

price of heating oil is high and its cold outside, many residents augment their heating with wood, but due to the climate and geography of the area, wood burning at low temperatures contributes to problematic air quality issues for Fairbanks and North Pole, specifically. Both are part of the PPM 2.5 non-attainment area, which has led to federal and environmental regulations that have placed restrictions on the selling of homes with non-compliant stoves and regulation of wood sellers.

Due to these issues, Senator Kelly said, this body passed SB 23 in 2013 which expanded the availability of clean and affordable gas for Interior Alaska. The goal of the IEP is to bring natural gas to the Interior at the lowest price possible to as many residents and businesses as possible, as quickly as possible.

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While some of Fairbanks is served by natural gas and given that many of the current customers are commercial in nature and interruptible due to the limited storage capacity and other infrastructure they have only laid 70 miles of pipe. This makes it challenging to create an expanded distribution network for other Interior residents and businesses. For a community that supports two major military installations and many commercial entities, the volatility of energy prices has presented a significant impediment to economic development.

SENATOR KELLY said SB 23 had several financing mechanisms: a \$57.5 million capital grant, a \$125 million SETS loan, and a \$150 million AIDEA bonding authority, which is essentially the extension date before the committee.

SENATOR KELLY said the AIDEA team overseeing the IEP had been diligently deploying the original financial packages to advance the development of the consolidated investment-grade local gas utility. Unfortunately, the authorization for the critical \$150 million bond is set to expire June 30, 2018 now that they are finally able to deploy it. It is necessary for increasing the production capacity of the LNG plant at Point Mackenzie and further expansion of the gas distribution lines in Fairbanks.

He emphasized that this bonding authorization can only be used on the IEP due to amendments to the financing package that was created in 2015 through passage of HB 105. The bonding can also only be used for financing investment-grade utility infrastructure due to covenants included in the agreement signed by AIDEA and the Interior Gas Utility (IGU).

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He related a little history: In 2014/15 the natural gas distribution system covering nearly all of Fairbanks and core North Pole was built out. In 2015, AIDEA purchased Pentex assets including the LNG production facility at Point MacKenzie, as well as LNG trailers and local distribution infrastructure. Last year, PACE was passed that will assist in commercial conversion to natural gas.

Last September, AIDEA secured a gas supply from Hilcorp and adopted a qualified plan of development (POD) for the rest of the project and in December followed up with the signing of agreements to consolidate the Fairbanks Natural Gas Company (FNG) and the Interior Gas Utility (IGU) into a single entity to distribute investment-grade utility infrastructure through sale of the Pentex assets to IGU. Construction is now under way on a 5.2 million-gallon LNG storage facility in south Fairbanks that will support future customer growth of the combined utility systems.

SENATOR KELLY said even with the recent fall in the price of heating oil, the need for a long-term clean and affordable energy alternative for the Interior is needed. On its present schedule, first expanded gas availability with the potential to transition current interruptible customers to firm service is expected in the late fall or winter of 2019. Many of the agreements and purchases have been made to make it possible. The only thing that remains is to extend the sunset date for use of the AIDEA bonds.

SENATOR GARDNER asked if there is any opposition to this issue.

SENATOR KELLY answered it has been debated quite a bit and has stood up to it. He noted that the chairman of the Finance Committee would also get a chance to review it.

SENATOR KELLY said he likes the way this project has evolved; essentially core areas are set up with infrastructure through a utility. Then as economics allow, it can expand to other areas. It will take a while, but others will benefit from having gas because the price will be lower, plus many of the companies that have looked at investing in Fairbanks require the city to have uninterruptible natural gas.

SENATOR MACKINNON asked what the gas will cost consumers. And on page 1, line 8, it says the "authority" and she asked if that refers to the IEP.

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JOE BYRNES, staff to Senator Kelly, Alaska State Legislature Juneau, Alaska, answered within this section of the bill "authority" refers to AIDEA. The projected cost of gas to the consumer in the quarterly report issued on January 5, 2018 to the legislature is \$20.20/mcf.

SENATOR KELLY said he envisioned \$15 up to the city gate, but conversion would take that number up to \$20.

SENATOR KELLY said a company in Houston is trying to get into the mix on this and has talked about even lower prices.

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GENE THERRIAULT, AIDEA, Fairbanks, Alaska, agreed that "authority" refers to AIDEA. With regards to the question of price, under the requirements of HB 105, passed in 2015, the AIDEA board has an obligation to certify the "HB 105 plan." That was done in September after securing a source of gas. The plan's initial price is \$20.10/mcf. Once the infrastructure is in place and can start to serve more customers, spreading fixed costs over more users, those costs come down. So, by 2020, the price will go down to \$17.31. In 2023, will go down to \$15.11/mcf.

Currently, fuel oil is \$2.40/gallon that converts to about \$18 natural gas. So, as they are able to serve more customers, it is anticipated they will beat the current fuel oil price, and the target at the time the financing package was put in place, was to try and deliver to a residential customer at \$15/mcf, which is equivalent to \$2/fuel oil.

CHAIR BISHOP asked Senator Kelly to provide him with the scale he referenced.

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SENATOR MACKINNON asked the source of the gas.

MR. THERRIAULT replied that the provider is Hilcorp.

SENATOR MACKINNON asked if Hilcorp will transport the fuel to Fairbanks.

MR. THERRIAULT replied that the natural gas comes from Hilcorp production in Cook Inlet. It is liquified at an existing plant in the Point MacKenzie area, then trucked to Fairbanks. They continue to work with the Alaska Railroad (ARRC) to squeeze out handling costs, so that ultimately as volume goes up and lends itself more to bulk shipment via rail that that could be a potential.

SENATOR MACKINNON asked how long the contract with Hilcorp is.

MR. THERRIAULT replied three years with provisions for extensions. He added that as the two utilities were consolidating, they asked the AIDEA board to consider a contract with a shorter duration, which would allow them the flexibility to look for potential supply sooner rather than later that might be at a more advantageous cost.

SENATOR MACKINNON asked if any anchor tenants will come on line right away at the \$20 price point.

MR. THERRIAULT answered that his temporary office in Fairbanks is at FNG since AIDEA owns the Pentex assets, and he has been surprised at the number of individuals asking the utility for gas. The month that the AIDEA board took the step of adjusting rates up by 3 percent a representative from the Bentley Mall came in and said they were in the process of doing some renovations on one of their satellite buildings and were going to make it a dual fuel capability remodel immediately, and he wanted to know how soon they can switch over. When Mr. Therriault asked about the price, his response was that his maintenance person told him it was just a no brainer, because of the increased efficiency of equipment that is fired with natural gas. Plus, the out-of-state owner wants to get rid of any buried fuel tanks on the property, and he is interested in switching over the main mall building - even at the current price of \$20/mcf.

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SENATOR MACKINNON asked if the military is satisfied with its coal-fired plant as they look for ways of lowering operating costs.

MR. THERRIAULT replied that the military is interested in this project and is watching to see what the delivered price would be. Most of the space heating on the base is actually done through distribution of hot water and steam; it's actually a combined plant with their power generation. He can't even hope

to compete against the price of coal per btu. However, they have some housing that is across the river that is not hooked up to that distributed heat loop and they are very interested in heating with natural gas there as well as other in facilities on the base. The past chairman of the AIDEA board used to be the facilities manager for all of Fort Wainwright, so he is very tied into what the potential may be. In addition, about a year and a half ago, the Department of Defense at Fort Greely put out an RFP expressing interest in who could potentially serve them with natural gas. FNG responded letting them know that they were working on this project but couldn't give them a target price. But now with starting to deploy the funds and build infrastructure they are able to firm up a potential price for them. Again, having that potential volume would help.

SENATOR MACKINNON asked if storage is an issue and if the state had backed another storage project.

MR. THERRIAULT replied that storage is the limiting factor in Fairbanks. Unless they can pledge that they can serve a firm customer in the dead of winter and meet it they cannot sign up another customer. They have "pulled the trigger" on sizing up storage. Once that is in place, which will be mid-summer 2019, they will be able to get more production out their current limited LNG production. The FNG expansion of storage in Fairbanks is the only project he is aware of.

CHAIR BISHOP commented that it's hard to sell a product when you don't have it, and when you actually get the product, there will be a lot more interest.

MR. THERRIAULT agreed and added that unfortunately the negotiations for the consolidation of the two utilities took longer than was anticipated. But combining the consumers from both utilities was critical. The contractual documents were signed in December and they are on track to paper that deal and get to close by the end of May.

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JIM DODSON, President, Fairbanks Economic Development Corporation (FEDC), Fairbanks, Alaska, supported SB 125 saying that the IEP project was started in his corporation a couple of years ago. He believes that affordable energy is one of the key components causing the lack of diversification of Alaska's economy and is necessary for the economic fix we need today.

He said FEDC established the \$15/mcf goal of the IEP, and that \$20 today after AIDEA purchased FNG is lower than their price when they were operating as FNG. So, while customers are paying the equivalent amount of diesel fuel, but just a few years ago Fairbanks was suffering under a \$4/gallon diesel fuel cost. The average home owner in Fairbanks uses about 1,000 gallons a year to heat their home and at \$4/gallon, it was devastating. They estimated the cost of home heating was taking about \$600 million/year out of the economy and needs to be corrected. Keeping the project moving forward is absolutely essential. The project doesn't start out at \$15/mcf, but that is where it will be at when there is a 10,000-customer base. Today, the FNG lines service about 900 customers.

Others before him have talked about increasing the distribution through storage and obviously if FNG can transport natural gas to Fairbanks 12 months a year rather just a few months they can add more customers. That would bring in an additional 400-500 customers. Today, with the help of the AIDEA bonds, the LNG plant and distribution lines can be expanded adding to the 7,000-customer number.

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JOMO STEWART, General Manager, Interior Gas Utility (IGU), Fairbanks, Alaska, supported SB 125. He said Mr. Therriault, Mr. Dodson, and Senator Kelly did an excellent job of characterizing the issue. He thanked the committee for hearing the bill.

CHAIR BISHOP said SB 125 would be held in committee.

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Finding no further business to come before the committee, Chair Bishop adjourned the Senate Community and Regional Affairs Committee meeting at 4:04 p.m.