

SENATE FINANCE COMMITTEE
February 12, 2018
9:02 a.m.

9:02:36 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Peter Micciche
Senator Donny Olson
Senator Gary Stevens
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue; Senator Pete Kelly, Sponsor; Joe Burns, Staff, Senator Pete Kelly; Gene Therriault, Deputy Director, Statewide Energy Policy Development, Alaska Energy Authority, Department of Commerce, Community and Economic Development.

PRESENT VIA TELECONFERENCE

Jomo Stewart, Interior Gas Utility, Fairbanks; Jim Dodson, President, Fairbanks Economic Development Corporation, San Diego; Jim Matherly, Mayor of Fairbanks, Fairbanks; Jon Cook, Chief Financial Officer, Airport Equipment Rentals, Fairbanks.

SUMMARY

SB 125 EXTEND BOND AUTH FOR INTERIOR ENERGY PROJ

SB 125 was HEARD and HELD in committee for further consideration.

^PRESENTATION: CREDIT RATING and DEBT ANALYSIS

9:03:09 AM

DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE, continued to discuss the presentation, "2018 Credit Review and State Debt Summary" (copy on file) from the committee meeting on February 7, 2018.

Mr. Mitchell read slide 13, "State Debt Rating Overview."

Mr. Mitchell reviewed slide 14, "Evolution of State of Alaska Credit Story":

- FY 2010-2014 -high levels of unrestricted general fund revenue greatly exceed budgetary needs, growing reserve positions, pre-funding of budget items, large capital budgets, highest credit ratings with stable outlook.
- FY 2015-2017 significantly diminished unrestricted general fund, use of pre-fundings, Statutory Budget Reserve and Constitutional Budget Reserve to balance budget, reductions to capital and operating budgets, discontinuation of following statutory formula for determining Permanent Fund Dividends, consideration of various tax proposals, consideration of use of earnings of the Permanent Fund to pay for government, State downgraded four times followed by three additional downgrades in FY 2018.
- FY 2018 advocating shifting the state's credit analysis towards an endowment model rather than the state models that rely almost exclusively on annual tax and fee collection.

9:07:36 AM

Senator von Imhof recalled a question regarding the bond debt analysis, and whether it took into account a potential Percent of Market Value (POMV) from the Permanent Fund that would raise the state's bond capacity. The reply was that the POMV was not factored into the bond capacity analysis.

She stated that there was an indication that passing a POMV would change the calculation and open opportunities. She stated that the conversation occurred six months prior.

Mr. Mitchell agreed with his previous remarks. He stated that the rating and strength of credit would be affected. There was an active push to have a shift in how the rating agency would examine the state.

Senator von Imhof asked about bond capacity, and thought it had not been incorporated yet.

Mr. Mitchell answered in the affirmative.

Senator Stevens referred to Mr. Mitchell's comparison of the state to a large endowed university in the United States. He wondered whether there should be a worry in that respect.

Mr. Mitchell replied that the changes that would impact universities than those that would impact a state. He remarked that tax changes that would affect the tax status of the Permanent Fund should be concerned, because it was a tax exempt investor.

[9:12:37 AM](#)

Mr. Mitchell turned to slide 15, "Good News and Bad News Rating Agency Views -State of Alaska":

Moody's	Aa3 (Stable)	
Standard and Poor's Rating Services		AA (Negative)
Fitch Ratings	AA (Stable)	

POSITIVES

- Recognition of the efforts of the Legislature and Governor to diminish spending
- Recognition of the new revenue options available to fund government expenditures (Permanent Fund and untapped taxes)
- Recognition that from a credit perspective Alaska is more like an endowed university than it is like most other states.
- November 2, 2017 Fitch Ratings "upgrades" the state's outlook from negative to stable
- December 1, 2017 Moody's Investor Service "upgrades" the state's outlook from negative to stable

Negatives

- Downgraded by Moody's on July 13, 2017, by S and P on July 18, 2017, and Fitch on November 1, 2017 (7th downgrade since AAA in 2015)
- Historic concerns related to narrow economy that is in recession, actuarially assumed pension liabilities, and over reliance on oil production.

Senator Micciche wondered how important of a POMV would be to a rating agency.

Mr. Mitchell thought passage of a POMV would constitute an important shift. He thought progress had been made, but considered that there had not been a lot of positive fiscal news of the state.

Mr. Mitchell read slide 16, "Excerpts from Last Rating Agency Presentation."

[9:17:58 AM](#)

Mr. Mitchell displayed slide 17, " Executive Summary":

The State has been migrating towards a fiscal plan

Budget Reductions

- FY 2018 Budget passed with \$145.6 million of additional reductions in operating appropriation
- Unrestricted General Fund operating expense reductions from FY 2015: \$1.3 billion

Permanent Fund Dividend: 50 percent of statutory formula -\$760 million (down from \$1,373 million in FY 2015)

Cut 50 percent by Veto in FY 2017 and no legislative over ride

Cut 50 percent by Legislature in FY 2018 with support of Governor

No appropriation from Earnings Reserve to Principal in 2017 or 2018 as required by State statute for inflation proofing

Substantial Existing Revenues and Evolving but Stable Reserve Position

- Significant liquidity in the General Fund with an asset value as of August 31, 2017 of \$3.6 billion
- State has maintained the practice of labelling available current year revenues as restricted for savings
- Includes Permanent Fund and CBRF revenues
- Oil, gas and resource-based industries continue to provide substantial revenue that is available for appropriation
- Currently no broad based tax on Alaska's economy
- Governor has called for a special session starting Oct. 23 to discuss wage tax and crime bill
- Stable available reserves projected at \$17.6 billion for 6/30/2017 compared to \$17.3 billion at 6/30/2015
- Permanent Fund Earnings Reserve increased \$4.2 billion from FY 2016 to FY 2017

Progressively Closer to Long Term Solution

- FY 2015 -Initial budget reductions
- FY 2016 -Significant budget reductions
- FY 2017 -Additional budget reductions, diminished PFD by Governor's veto
- FY 2018 -Additional budget reductions, diminished PFD by legislative action with Governor's support

Both House and Senate passed versions of the budget using PF Earnings Reserve

2. Reserve balances shown here include the CBRF and the PFER. FY2017 CBRF balance subject to year-end closeout, audit adjustments, and finalized results of the FY2017 CAFR, and uses a projection for FY2017 with best available information at this time. PFER based on APFC's June 30, 2017 fund financial history monthly report

[9:22:31 AM](#)

Mr. Mitchell spoke to slide 18, "Revenue Forecast and Budget Outlook," which showed a table entitled,

'Compilation of Available Revenue and Recent Budgeting Practice Shows Surplus and Reserve Growth.' He clarified that the slide represented a point in time with some assumptions that could be viewed as pessimistic or optimistic, depending upon one's point of view. There was a projected \$2.5 billion deficit for FY 18. He looked at the CBRF investment earnings projection, the CBRF oil and gas dispute resolutions. the optimistic GF expense line, which had held static at \$4.3 billion. He acknowledged that there was older revenue source information that needed updating. Additionally, the table did not reflect potential draw on the Permanent Fund.

[9:26:55 AM](#)

Senator Micciche thought slide 18 was helpful. He asked if it would be a great amount of work to update the slide with the new forecast.

Mr. Mitchell clarified that the table did not depict an official forecast. He specified that the slide did not reflect a plan.

Co-Chair MacKinnon wondered if the slide was an optimistic view of the state's finances.

Senator Micciche thought it would be helpful to see the slide updated with Fall Revenue Forecast numbers.

Co-Chair MacKinnon thought Mr. Mitchell had fairly reported to credit rating agencies.

[9:31:00 AM](#)

Senator Micciche pointed out that the numbers on the slide did include projections for oil price, and thought that it might not be optimistic.

Co-Chair MacKinnon thought it was difficult for the public to follow along when the committee put out different sets of bottom line numbers. She explained that members saw numbers differently. She thought the committee's job was to come together to consider one set of numbers. She hoped the media understood that the fiscal numbers. The legislature was working hard to find a common set of data points.

Co-Chair Hoffman looked at FY 19 on slide 18; and noted that the legislature had not agreed upon a split for a POMV.

[9:35:44 AM](#)

Mr. Mitchell reviewed slide 19, "Revenue Forecast and Budget Outlook":

Unlike other State's, the State of Alaska's Revenue Generation is Not Limited to Alaska's Economy

The Alaska Permanent Fund Provides Alaska Unparalleled Revenue Source Diversification

As of August 31, 2017 Alaska's Permanent Fund endowment had an unaudited total fund balance of \$61.5 billion.

- o The State's Permanent Fund Revenue is generated from the national and world economies
- o The Permanent Fund does not rely on Alaska's economy for revenue generation -prohibited investment
- o The APFC Board independently directs investments and has established a 10-year total return projection of 6.50 percent
- o The Permanent Fund owns shares in more than 3,000 corporations around the world
- o Fixed Income holdings include both US and International securities
- o The Real Estate allocation provides inflation protection and enhanced diversification worldwide

Investment income has tended to be countercyclical to oil, the source of the State's other largest revenue stream

Mr. Mitchell looked at slide 20, "Alaska's Economy Has Been More Stable than U.S.," which showed four graphs. qualified that he was not an economist, but acknowledged that he looked at the work of economists.

[9:40:17 AM](#)

Vice-Chair Bishop thought the slide was helpful, and showed that Alaska was a resource state. He felt that the chart

would be different and show diversity, if the chart had been outlined based on the rest of the U.S.

Co-Chair MacKinnon pointed out the graph of unemployment rates in the state as compared to the rate in the entire U.S

Senator Micciche had recently looked at a chart of unemployment rate over a 30-year timeline.

Mr. Mitchell read slide 21, "Alaska Tax Credit Certificate Bond Corporation."

Mr. Mitchell displayed slide 22, "Alaska Tax Credit Purchase Proposal

Existing liability included in the State's Comprehensive Annual Financial Report

Payable through an offset to state tax liability or by appropriation

Historical practice of annually appropriating all accrued credits until FY 2016

Appropriation of annual payment based on formulaic statutory framework

Governor has proposed paying for accrued credits based on discounted value from the statutory framework's payment projection

Payment would be provided by issuing bonds to refinance the existing liability

The combination of discounting and borrowing at lower rates than existing fund balance will earn is anticipated to result in a financial benefit to the State

[9:46:19 AM](#)

Mr. Mitchell spoke to slide 23, "Alaska Tax Credit Purchase Proposal," which showed four graphs. He noted that the purple on the graphs represented the current payment schedule. The purple cash flow could be refinanced, but the initial benefit was how the proposal differed from the

pension obligation bond. He noted that the various shades of blue and green represented the replacement cash flows that would occur in the place of the purple cash flow as expenditures were being deferred for a number of years.

[9:50:12 AM](#)

Senator von Imhof thought slide 23 was very helpful, and helped to illustrate the scale and timing of the payments. She understood that the state would initially negotiate with the receivers of the tax credits for either a 5 or 10 percent discount rate, and the state would fix into the rate. She noted the rising inflationary environment. She wondered whether the state had the capacity without a POMV. She furthered queried whether there would be an impact on a rate, with the passage of a POMV.

Mr. Mitchell replied that there was nuance regarding whether the state could participate with debt. He remarked that it was an existing liability. He recalled that the state had previously desired a pension obligation bond, and that transaction had been properly structured.

Mr. Mitchell replied that one rating agency would have a one-notch downgrade; the other two would recognize it as a refinancing of an existing liability. He remarked that he said that there was potential to impact the debt capacity, but it was not a one-for-one basis.

[9:54:47 AM](#)

Mr. Mitchell referred back to slide 23, and qualified that the chart was very generalist. The legislation did not allow for the state to borrow for the current year's payment.

Co-Chair MacKinnon referred to a policy from the debt affordability analysis. She wondered whether the state's debt was still between 5 and 8 percent.

Mr. Mitchell answered in the affirmative.

Co-Chair MacKinnon remarked that the determinations were subjective. She stressed that there should be a policy, and target to stay within those parameters. She wanted to reassure Alaskans that the state was within that realm.

Mr. Mitchell replied that the state was above the metrics. He stated that the projections were that the state would be within the metrics in two years on debt into the 5 percent level.

Co-Chair MacKinnon asked if the projection included current projections for revenue.

Mr. Mitchell answered in the affirmative.

[9:58:16 AM](#)

Senator Micciche remarked that the cash flow would help to reduce UGF. He stated that the revenue would match the call for the extended cash payments out when the state expected to be at a better financial position. He wondered whether the credit rating determination examined at that level of detail. He wondered whether it would be considered a positive step, stable, or negative impact on the state's rating.

Mr. Mitchell replied that there was a discussion about pension obligation bonds about a "soft liability." He stated that making the actuarially determined contributions to pension trusts was an annual appropriation that could occur or not occur. He remarked that there may be a constitutional protection for those benefits to be paid to the beneficiaries, but the actual funding of the trust could occur or not occur. He stressed that one debt was issued, it became a hard liability. The hard liability concept was that there was a bond that must be paid on, and choosing not to pay would result in a credit default with all the negative ramifications.

Senator Micciche wondered whether it balanced to a positive or not.

Mr. Mitchell thought it was a difficult question to answer, since there was positive and negative aspects. He stated that oil and gas credits were not used on the credit rating scorecards, as most states did not have them.

[10:02:32 AM](#)

Vice-Chair Bishop thought the conversation was largely hypothetical.

Co-Chair MacKinnon thought Vice-Chair Bishop's comments were related to the discount proposed by the governor.

Senator von Imhof looked at the graphs on slide 23, and asked if the figures represented real or nominal dollars.

Mr. Mitchell confirmed that the figures were accurate.

Mr. Mitchell addressed Vice-Chair Bishop's comments. The firms had considered that any proposal was better than the status quo.

Co-Chair MacKinnon asked if the slide was available electronically, so it could be reproduced. She stated that the governor's proposed budget contained no tax credit payments. She thought it was disheartening that the budget did not have the statutorily required minimum payment included.

[10:07:02 AM](#)

AT EASE

[10:12:29 AM](#)

RECONVENED

#sb125

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."

[10:12:36 AM](#)

SENATOR PETE KELLY, SPONSOR, discussed SB 125. He read from a prepared statement:

For the record, I am Senator Pete Kelly, district A covering the City of Fairbanks and Fort Wainwright. Madam Chair, members of the Senate Finance Committee, thank you for hearing SB 125.

Senate Bill 125 extends the time for AIDEA to issue bonds for the Interior Energy Project (IEP) by five years to June 30, 2023.

The Interior suffers from the most volatile energy costs of any community on the Railbelt.

As a result of the cold winters and high prices residents also burn a lot of wood and coal, exacerbating the high prices with air quality issues.

It is due to these issues:

We, Governor Sean Parnell and the legislature put a package together in the form of SB 23 creating the Interior Energy Project. SB 23 was a funded(ING?) package

The funding package for the IEP included:

1. \$57.5 million dollars in a capital grant, all of which has been spent or obligated
2. \$125 million dollars in Sustainable Energy Transition and Supply (SETS) Loans of which \$52.8 million dollars has been spent and \$45.5 million had been obligated
3. And \$150 million dollars in AIDEA Bonding Authority, the subject of the bill before you, none of which has been used to date

The distribution system we have in place due to limited liquefaction and storage infrastructure, has never exceeded 70 miles of pipe.

With I think no more than about 1200 customers,

Many of the current customers are commercial in nature, and many of them have interruptible service due to the lack of sufficient local backup LNG storage capacity.

This structure made 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 economic impediment.

Madame Chair, the AIDEA team overseeing the IEP has been advancing the original financing package,

But just as they were ready to deploy the \$150 million-dollar bond component, we have essentially run out of time on the legislative authorization.

This bonding is absolutely necessary for the project as it will be used to Increase the production capacity of the LNG plant at Point MacKenzie and further the expansion of the distribution network.

I want to emphasize that this bonding authorization can only be used for the purposes of the Interior Energy Project due to amendments to the financing package created in 2015 through the passage of HB 105.

The bonding can also only be used to finance investment-grade utility infrastructure due to covenants included in the agreements signed between AIDEA and the IGU.

TO DATE:

1. The 2014 and 2015 build-out of a natural gas distribution system covering nearly all of Fairbanks and core-North Pole
2. The 2015 AIDEA purchase of the Pentex assets including the LNG production facilities at Pt. MacKenzie, LNG trailers, and local distribution infrastructure
3. The passage last spring of PACE legislation to assist in commercial conversions to natural gas
4. Last September, AIDEA secured a gas supply agreement with Hilcorp.
5. This was followed in December, with the signing of agreements to consolidate the Fairbanks Natural Gas (FNG) and the Interior Gas Utility (IGU) systems into a single, investment-grade gas utility through the sale of the Pentex assets to IGU.
6. And, this month, construction is now underway on a large-scale 5.2 million gallon LNG storage facility in south Fairbanks that will support the future customer growth of the combined utility system.

Even with the recent fall in the price of heating oil in the past few years, the need for a long-term, clean, and affordable energy alternative for the Interior remains a

high priority.

On its present schedule, first expanded gas availability with the potential to move interruptible customers to full service is expected in the winter of 2019.

And ... 2020 will see the first full scale efforts to convert properties with access to the existing distribution system to gas.

Madame Chair, Extending the sunset for AIDEA's bonding authority for this project will ensure continued success of the IEP and will help the interior realize the vision of clean and affordable natural gas in the Fairbanks/North Pole area.

Vice-Chair Bishop commented that the fuel that was delivered to his Fairbanks home the week prior was \$2.86 per gallon. He felt that the prices were increasing.

Senator von Imhof wondered whether there was a long-term contract with the gas supplier in Southcentral Alaska.

Senator Kelly deferred to Mr. Therriault.

[10:19:57 AM](#)

JOE BURNS, STAFF, SENATOR PETE KELLY, noted that there was the most recent bill version in the members' packets. He stated that the only change from the original version was a title change, which cleared up some ambiguity in the original title.

Co-Chair MacKinnon remarked that she may have had an impact on that change, because she wondered which entity was financing the bonds.

Co-Chair MacKinnon OPENED public testimony.

[10:21:07 AM](#)

GENE THERRIAULT, DEPUTY DIRECTOR, STATEWIDE ENERGY POLICY DEVELOPMENT, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, referenced Senator von Imhof's question. He stated that the current gas supply that was secured from Hilcorp was for a three-year period of time. He remarked that there was offered a

longer term contract, but the entity that was purchasing and consolidating the utilities asked not to lock in a longer period of time. He stated that the AIDEA board decided that three years, with potential extensions, was acceptable. He shared that it allowed for the ability to look for other potential sources outside of Cook Inlet that may lower the price of gas. He remarked that in 2015, HB 2015 was passed, and the legislature put a number of requirements on the AIDEA board. He stated that one of those requirements that the board needed to see a supply of gas, understand all the components of the infrastructure, and have an estimation of the delivered price. She stated that the supply contract allowed for no take or pay obligation to accommodate the anticipated growth, because Hilcorp had provided flexibility to the enterprise.

Senator von Imhof wondered when the current contract expired. She asked whether the terms would remain the same or require re-negotiation if there was a renewal in the contract.

Mr. Therriault replied that the old contract was supposed to end at the end of march. The new contract started at that time, but there was an avoidance of a 3 percent increase in the old contract on January 1. He stated that it was three years from the end of March. He furthered that in order to get increased capacity, the producer must be given 18 months advance notice. He stated that for the five-year extensions, the terms could be renegotiated. He noted that there was no current discussion about reopening those terms, but he believed the producer would be amenable to consider a possible request.

Senator von Imhof observed that the current contract would expire in 2021. She surmised that, at that time, both parties would meet to discuss, terms, and other topics.

Mr. Therriault replied in the affirmative. He furthered that, with existing customers, the utility must start the discussions well before the end of the contract in order to show the Regulatory Commission of Alaska.

Co-Chair MacKinnon wondered whether Mr. Therriault had prepared testimony to provide to the committee.

Mr. Therriault replied that he was available to primarily answer questions.

10:25:21 AM

Senator Stevens wondered whether the bill provided for all of the energy needs of the two bases. He felt that it would be crucial to the security of the bases.

Mr. Therriault replied that there was currently no anticipated use on the bases. He shared that Ft. Wainwright had some of the facility across the river, which was not heated, but had a distributed heat loop off their power plant. That power plant ran on coal, and remarked that it was difficult to compete with the price of oil. He remarked that there was some infrastructure that could avail itself of a pipe distribution. He stated that Eielson was approximately 7 miles from North Pole, and there was some estimation of the cost of what it would take to pipe energy. He stated that most facilities on Eielson were heated with a distributed heat loop. He remarked that until they decided to use a different source of generation for the bases, there was no anticipated use. He hoped to pick up some use for some of the facilities. He remarked that there had been responses to a request from the Department of Energy to examine the interest of changing the energy source for Fort Greely. He remarked that there was an RFP to examine who may have that capability. He understood that there would be no capability of pushing gas via pipe distribution, the Fort Greely area could source LNG out of the plant expansion. He remarked that it was all a volume enterprise: the higher the volume, the lower the per unit cost.

Co-Chair MacKinnon remarked that she had asked in another committee whether there were any anchor tenants. She shared that there were people who were interested in gas, but no anchor tenants like the ones thought of for industry. She wondered whether that had changed since that committee question. She shared that there was a possibility that a retailer or small box store may be interested, but no anchor tenants like the mine or military bases.

Mr. Therriault replied that there were no current anchor tenants. He shared that mining operations up the Dalton Highway had been watching the program to see the delivered price in the community at bulk LNG. He stated that once that price was seen, those operations could run the

economics for continuing to drive a further distance for delivery.

[10:28:40 AM](#)

Co-Chair MacKinnon queried the anticipated cost to consumers.

Mr. Therriault replied that there was a document that showed that the delivered price was over \$20 per NCF of gas, which was equivalent to \$2.77 fuel oil. He believed that once there was service to residential and uninterrupted customers, the price would reduce in 2020 to \$17.31 per NCF of gas. He stated that it would be down to \$15.48 in 2022, which would be approximately \$2.00 in fuel oil.

Senator von Imhof felt that the transportation costs could increase the costs, because of liability, insurance, and labor costs. She wondered whether there was ability to revisit a fixed pipeline, which was a fixed asset that could depreciate over time.

Mr. Therriault stated that AIDEA was focused on LNG delivery. Part of the difficulty was the seasonal swing in energy demand in Fairbanks. It was necessary to have pipe capacity for triple the volume in winter.

[10:33:12 AM](#)

JOMO STEWART, INTERIOR GAS UTILITY, FAIRBANKS (via teleconference), testified in support of the bill.

[10:33:48 AM](#)

JIM DODSON, PRESIDENT, FAIRBANKS ECONOMIC DEVELOPMENT CORPORATION, SAN DIEGO (via teleconference), spoke in support of the bill.

[10:34:30 AM](#)

JIM MATHERLY, MAYOR, FAIRBANKS (via teleconference), testified in support of the bill.

[10:35:16 AM](#)

JON COOK, CHIEF FINANCIAL OFFICER, AIRPORT EQUIPMENT RENTALS, FAIRBANKS (via teleconference), spoke in support of the bill. He thought the bill was critical to his company.

Co-Chair MacKinnon CLOSED public testimony.

Vice-Chair Bishop discussed the fiscal note.

Co-Chair MacKinnon noted on page 2 of the fiscal note, which said that the principal amount of the bonds authorized may not exceed \$150 million plus the cost of capitalized interest, bond counsel fees, trustee fees, rating fees, financial investor fees, and other costs that the authority considered reasonable and appropriate.

Senator Olson asked if there were private investors.

Mr. Therriault stated there were not private investors involved. He detailed that AIDEA had put out an RFP, There was a request for the company to step away from the project, and it had agreed.

Senator Olson considered the price of oil hovering for an extended length of time, and wondered whether there was a concern that the economy of Fairbanks would take stress to payback the bonds.

Mr. Therriault replied that the numbers in HB 105 were based on only 50 percent of the potential customers. He furthered that originally there was anticipation that the price of fuel presented enough of a delta to get upwards of 70 to 75 percent of the customers. He remarked that because of the smaller delta, the expectation was reduced to 50 percent. He felt confident that they could reach the target numbers.

[10:41:26 AM](#)

Senator Olson considered the purchase in 2013 when the bill was passed. He wondered whether inflation was a concern.

Mr. Therriault stated that when the consolidation of the utilities was negotiated, the contractual documents had a number of covenants.

Co-Chair MacKinnon asked Mr. Therriault to explain how much money the state had invested in the Interior Energy Project.

Mr. Therriault replied that the original financing plan was \$57.5 million of capital grants, with allowance for \$125 million of SETS financing. He stated that there was a specific appropriation for the SETS fund for that purpose. The potential for the \$150 million of bonds, but the bonds had not yet been accessed. He stated that under the contractual agreements from December 2017, all of the capital money would have been deployed with \$70 million to \$80 million of the SETS funds.

Co-Chair MacKinnon recalled that the total was \$337.5 million of state support for the project. She queried the state's investment for storage.

Mr. Therriault replied that storage was the "bottleneck." He stated that more customers could be served with the current small plant in MatSu, except that there was a requirement for five days of product in the community in order to serve customers in case of an interruption.

[10:45:28 AM](#)

Co-Chair MacKinnon asked if the state had granted bonds for support of storage facilities in the Interior.

Mr. Therriault stated that the financing for the storage was utilization of some of the SETS authorization.

SB 125 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:46:17 AM](#)

The meeting was adjourned at 10:46 a.m.